Supreme Court, U.S.
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No. _____

IN THE
Supreme Court of the United States
OCTOBER TERM, 1996

PAOLO GUCCI DESIGN STUDIO, LTD.,
Petitioner,

v.

FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, ET AL., GUCCIO GUCCI, S.p.A. and GUCCI AMERICA, INC.,
Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

PETITION FOR A WRIT OF CERTIORARI

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February 12, 1997

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83 pp

QUESTIONS PRESENTED FOR REVIEW

1. Does Section 363(m) of the Bankruptcy Code violate the United States Constitution by permitting Bankruptcy Courts to seize and sell property over which they have no jurisdiction with no recourse to Article III courts?

2. Did the Court of Appeals for the Second Circuit correctly interpret Section 363(m) of the Bankruptcy Code when it held that a 24-hour lapse in a stay removed the jurisdiction of Article III courts to determine whether a Bankruptcy Court had improperly seized and sold post-petition intellectual property?

LIST OF PARTIES

In addition to the parties listed in the caption, the following were parties in the Court of Appeals: Licensing by Paolo, Inc., Trackwise Sales Corporation and Orologi Paolo, Inc.

PARENT COMPANIES AND NONWHOLLY OWNED SUBSIDIARIES

Paolo Gucci Design Studio, Ltd. is a corporate entity without parent companies or subsidiaries.

TABLE OF CONTENTS

	Page
QUESTIONS PRESENTED FOR REVIEW	i
LIST OF PARTIES	ii
PARENT COMPANIES AND NONWHOLLY OWNED SUBSIDIARIES	ii
TABLE OF CONTENTS	iii
TABLE OF AUTHORITIES	vii
PETITION FOR A WRIT OF CERTIORARI	1
OPINIONS BELOW	2
JURISDICTION OF THE SUPREME COURT	3
STATUTORY PROVISIONS INVOLVED IN THIS CASE	3
CONSTITUTIONAL PROVISIONS INVOLVED IN THIS CASE	4

TABLE OF CONTENTS - Continued

Page

STATEMENT OF THE CASE..... 4

A. Proceedings in the Bankruptcy Court..... 7

B. PGDS' Appeal of the Bankruptcy Court Order..... 9

REASONS FOR GRANTING THE WRIT..... 11

I. This Case Presents Important Constitutional Issues Concerning The Extent to Which Bankruptcy Courts Can Deprive Citizens of Their Rights and Property Without Recourse to Article III Courts..... 11

II. This Case Presents Important Issues That Have Been Resolved Differently by the Courts of Appeals for the Second, Third and Tenth Circuits..... 13

CONCLUSION..... 16

TABLE OF CONTENTS - Continued

Page

APPENDICES

A. Order of the Court of Appeals for the Second Circuit Dated December 4, 1996..... 1a

B. Order of the Court of Appeals for the Second Circuit Dated December 13, 1996..... 4a

C. Order of the Court of Appeals for the Second Circuit Dated December 24, 1996..... 6a

D. Opinion of the Court of Appeals for the Second Circuit (1997 WL 34000 (2d Cir. January 30, 1997))..... 10a

E. Order of the Court of Appeals for the Second Circuit Dated November 22, 1996..... 18a

F. Portion of a Transcript Before the United States District Court for the Southern District of New York Dated November 21, 1996..... 20a

TABLE OF CONTENTS - Continued

Page

G. Stipulation and Order of the United States District Court for the Southern District of New York Dated October 16, 1996..... 22a

H. Order of the United States Bankruptcy Court for the Southern District of New York Dated October 15, 1996..... 25a

I. Amended Decision of the United States Bankruptcy Court for the Southern District of New York Dated October 9, 1996..... 38a

J. Order of the United States District Court for the Southern District of New York Dated January 12, 1994..... 52a

TABLE OF AUTHORITIES

CASES

	Page
Gucci v. Gucci Shops, Inc., 651 F.Supp. 195 (S.D.N.Y. 1986)	5
Gucci v. Gucci Shops, Inc., 1988 WL 75263 (S.D.N.Y. July 13, 1988)	5
Gucci v. Gucci Shops, Inc., No. 83 Civ. 4453 (WCC), slip op. (S.D.N.Y. Jan. 12, 1994)	6, 52a
In re Gucci, 193 B.R. 411 (Bankr. S.D.N.Y. 1996)	5
In re Osborn, 24 F.3d 1199 (10th Cir. 1994)	13
In re Paolo Gucci, et al., 202 B.R. 686 (S.D.N.Y. 1996)	3, 7-8, 38a
In re Paolo Gucci, 1997 WL 34000 (2d Cir. January 30, 1997)	2, 10a
In re Swedeland Development Group, Inc., 16 F.3d 552 (3d Cir. 1994)	14, 15, 16

TABLE OF AUTHORITIES - Continued

Page

Northern Pipeline Construction Co. v. Marathon Pipe Line Co., 459 U.S. 813, 103 S.Ct. 199 (1982)..... 11, 12

STATUTES

11 U.S.C. § 363(m)..... *passim*

11 U.S.C. § 364(e)..... 14

28 U.S.C. § 1254(1)..... 3

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No. ____

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FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, ET AL., GUCCIO GUCCI, S.p.A. and GUCCI AMERICA, INC.,
Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

PETITION FOR A WRIT OF CERTIORARI

Paolo Gucci Design Studio, Ltd. respectfully petitions the Court to issue a writ of certiorari to review a series of final Orders issued by the United States Court of Appeals for the Second Circuit on December 4, 1996, December 13, 1996 and December 24, 1996.

OPINIONS BELOW

The Orders of the Court of Appeals for the Second Circuit which petitioner seeks to appeal to this Court dismiss an appeal of a Bankruptcy Court determination on mootness grounds. The Court of Appeals issued an Opinion in support of its Orders on January 30, 1997.

The Orders entered by the Court of Appeals for the Second Circuit for which certiorari is requested were issued on December 4, December 13 and December 24, 1996. They are set out in Appendices A, B and C. A recent Opinion of the Court of Appeals for the Second Circuit dated January 30, 1997 is reported at 1997 WL 34000 (2d Cir. 1997) and is set out in Appendix D. A separate Order of the Court of Appeals for the Second Circuit dated November 22, 1996 granting a temporary stay of the Bankruptcy Court's sale of post-petition property is set out in Appendix E.

The Appendices also include relevant portions of determinations by the District Court and the Bankruptcy Court. A portion of a transcript embodying an oral order of the United States District Court for the Southern District of New York denying a stay of the Bankruptcy Court Order appears in Appendix F. An earlier Order of the District Court for the Southern District of New York granting a stay of the Bankruptcy Court's Order was issued on October 16, 1996 and appears in Appendix G.

An Order of the Bankruptcy Court for the Southern District of New York which seizes and sells petitioner's post-petition intellectual property appears in Appendix H. A related Decision and Order of the Bankruptcy Court

appears at Appendix I. This decision is reported at 202 B.R. 686 (S.D.N.Y. 1996).

JURISDICTION OF THE SUPREME COURT

The Orders of the Court of Appeals for the Second Circuit for which certiorari is sought were issued on December 4, 1996, December 13, 1996 and December 24, 1996. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. § 1254(1). This petition is timely filed under Rule 13.1 of the United States Supreme Court.

STATUTORY PROVISIONS INVOLVED IN THIS CASE

11 U.S.C. § 363 (m)

> The reversal or modification on appeal of an authorization under subsection (b) or (c) of this section of a sale or lease of property does not affect the validity of a sale or lease under such authorization to an entity that purchased or leased such property in good faith, whether or not such entity knew of the pendency of the appeal, unless such authorization and such sale or lease were stayed pending appeal.

CONSTITUTIONAL PROVISIONS INVOLVED IN THIS CASE

U.S. Constitution, Article III

> Section 1. The judicial power of the United States, shall be vested in one Supreme Court, and in such inferior courts as the Congress may from time to time ordain and establish. The judges, both of the supreme and inferior courts, shall hold their offices during good behaviour, and shall, at stated times, receive for their services, a compensation, which shall not be diminished during their continuance in office.

U.S. Constitution, Amendment V

> No person shall . . . be deprived of life, liberty, or property, without due process of law . . . .

STATEMENT OF THE CASE

The petitioner in this case, Paolo Gucci Design Studio, Ltd. (PGDS), holds the exclusive right to license the designs of Paolo Gucci. Prior to his death on October 10, 1995, Paolo Gucci was one of the pre-eminent fashion designers in the world. From 1952 to 1978, Mr. Gucci was the chief designer of consumer goods at the Guccio Gucci design studio founded by his grandfather in Florence, Italy.

After Paolo Gucci left the family firm, he established his own independent design studio. The core of Paolo Gucci's operations was the designs he created himself and the designs of the employees of his studio which he personally supervised and approved. Paolo Gucci identified these products as his creation by placing various marks on them.[1]

Following protracted litigation with the Guccio Gucci companies over the right to use his name in connection with his designs, Paolo Gucci prevailed in the District Court. On July 13, 1988, the District Court for the Southern District of New York issued a Final Judgment which held that all of the marks which identify goods as the creation of Paolo Gucci are "personal to Paolo Gucci."[2] The District Court therefore held that no one could register or use in an independent business operation, the name "Paolo Gucci" or any mark or symbol associated with Paolo Gucci, such as the initials "PG."[3] The District Court further held that Paolo Gucci could not "assign, license, grant, convey, lease or in any way transfer" his rights in any of the marks associated with his name "in whole or in part, to any person, natural or juridical."[4] In a subsequent decision, the District Court ruled that "the right to use the name 'Paolo Gucci' is not a form of intellectual property that can be bought and sold by anyone. . . ."[5]

On the other hand, the District Court did permit Paolo Gucci, *as an individual*, to license the use of his name

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1 *Gucci v. Gucci Shops, Inc.*, 651 F.Supp. 194, 195 (S.D.N.Y. 1986).
2 *Gucci v. Gucci Shops, Inc.*, 1988 WL 75263 (S.D.N.Y. July 13, 1988), at *3.
3 *Id.* ¶ 8, at *1.
4 *Id.* ¶ 14, at *3.
5 *In re Gucci*, 193 B.R. 411, 417 (Bankr. S.D.N.Y. 1996).

and marks associated with his name to a master licensee, such as PGDS.[6] The court also permitted the master licensee to sub-license the right to produce and identify products as designed or selected by Paolo Gucci.[7] However, emphasizing that the right to use the Paolo Gucci marks, trademarks and symbols was strictly personal to Paolo Gucci, himself, the District Court determined that all rights to use or license the Paolo Gucci name were subject to the condition that:

> All designs indicated as being "Designed by Paolo Gucci" are, in fact, designed by Mr. Paolo Gucci, and all designs indicated as being "Selected by Mr. Paolo Gucci" are, in fact, selected by Mr. Paolo Gucci.[8]

On February 8, 1994, Paolo Gucci filed a petition for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court for the Southern District of New York. Following the filing of the petition, Paolo Gucci resumed his designing career in order to earn a living. He entered into a contract with PGDS, the petitioner before this Court, which was designated as the master licensee of all Paolo Gucci *post-petition* designs throughout the world.

PGDS began its operations with great success and showed promise of even greater achievement. It proceeded to sub-license other companies to manufacture and produce consumer goods based on Paolo Gucci's new designs. A

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[6] *Gucci v. Gucci Shops, Inc.*, No. 83 Civ. 4453 (WCC), slip op. (S.D.N.Y. Jan. 12, 1994). This Order appears as Appendix J to this petition, ¶ 2(a) at 54a.

[7] *Id.* ¶ 2(b), at 54a.

[8] *Id.* at 54a.

report filed in the Bankruptcy Court by an advertising and promotional strategy company described the market in which Paolo Gucci products would compete as a $115.3 billion a year market, with Paolo Gucci designs having the potential to achieve revenues of more than 1% of the market. At that level of sales, revenues from the sale of Paolo Gucci products would exceed $1.3 billion a year. The same advertising and promotional strategy company conservatively estimated that retail sales of PGDS within five years would range from $455 million to $682 million per year.

A. Proceedings in the Bankruptcy Court

On May 15, 1996 the Bankruptcy Court announced that it would conduct an auction of all intellectual property of Paolo Gucci. PGDS immediately filed a motion with the court seeking a determination that Paolo Gucci's *post-petition* designs, which it had the exclusive right to license, were not property of the bankruptcy estate and could not be sold by the Bankruptcy Court. As noted above, under the terms of its contract with Paolo Gucci, PGDS had been given the exclusive right to license the manufacter and sale of consumer goods produced from the designs Paolo Gucci created after he filed his bankruptcy petition.

The Bankruptcy Court proceeded to conduct the auction without deciding the PGDS motion. On September 17, 1996, the Bankruptcy Court ruled that Guccio Gucci had prevailed at the auction. A month later, the Bankruptcy Court ruled that Paolo Gucci's post-petition designs were part of the bankruptcy estate which had been sold to Guccio Gucci.[9] According to the Bankruptcy Court, Paolo Gucci's

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[9] *See* Amended Decision on Motion to Determine Whether Post Petition Designs Are Property of the Estate, Appendix at 38a.

very name became property of the bankruptcy estate the moment he filed a bankruptcy petition.[10] Therefore, according to the Bankruptcy Court, when Paolo Gucci continued to design products using his own name, all of the products he created became part of the bankruptcy estate, even though Paolo Gucci created them after he had filed a bankruptcy petition.[11]

On the basis of that ruling, the Bankruptcy Court issued an Order approving the sale to Guccio Gucci of:

> d) all rights to use the name "Paolo Gucci" commercially (. . . and all other rights to identify products as having been designed or selected by, or under the supervision, direction or authority of, or with the approval of, Paolo Gucci), and all good will associated therewith, throughout the world . . .;
>
> e) . . . all designs created or selected by or under the supervision, direction or authority of, or approved by, Paolo Gucci, whether designed, selected or approved *before or after* the commencement of the above-captioned chapter 11 cases . . . .[12]

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[10] *Id.* at 49a.

[11] *Id.* at 50a-51a.

[12] *See* Order (A) Approving Sale of Paolo Gucci Name, Trademarks and Licensing Rights Free and Clear of Liens, Claims and Encumberances Pursuant to Section 363 of the Bankruptcy Code, (B) Rejecting Certain License Agreements Pursuant to Section 365 of the Bankruptcy Code, and (C) Confirming and Approving Termination of the Stipulation with Trackwise Sales Corporation, Appendix at 29a (emphasis added).

The Bankruptcy Court Order also ruled that "PGDS does not own, or have the right to use or license" any of Paolo Gucci's designs,[13] prohibited PGDS from using the post-petition designs in its possession,[14] and ordered PGDS to turn these designs over to the Trustee.[15] Despite the District Court's orders that all marks and symbols associated with the Paolo Gucci name were not intellectual property but rather were personal to Paolo Gucci, the Bankruptcy Court also held that it could sell the right to use these marks. As noted above, the sale of both the post-petition designs as well as the right to identify goods as the creation of Paolo Gucci was made to Guccio Gucci. Guccio Gucci had announced that its purpose in purchasing these designs was to destroy them.

B. PGDS' Appeal of the Bankruptcy Court Order

Section 363(m) of the Bankruptcy Code states that unless a stay is obtained pending appeal, the "reversal or modification on appeal. . . of a sale or lease. . . does not affect the validity of [the] sale or lease."

In an effort to comply with this provision, PGDS applied to the Bankruptcy Court on October 15, 1996 for a stay of its Order. The Bankruptcy Court denied the stay but delayed the implementation of its Order for 48 hours to permit an application for stay to be made to the District Court. On October 16, 1996, the District Court entered a stay of the Bankruptcy Court's sale Order pending appeal.[16] An appeal was then filed with the District Court on an

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13 *Id.* at 30a.

14 *Id.* at 31a.

15 *Id.*

16 *See* Appendix at 22a.

expedited basis. On November 21, 1996, the District Court denied the appeal without issuing a written decision. The District Court then refused to grant a stay or extend the stay it had previously granted for 48 hours to permit a further application for stay to the Court of Appeals.

Nonetheless, PGDS sought a stay from the Court of Appeals since none of the parties had changed its position following the denial of the stay by the District Court. That stay was granted by a single judge of the Court of Appeals less than 24 hours later.[17] The stay was extended orally by a panel of the Court of Appeals on December 3, 1996. However, the next day, the panel issued another decision holding that it did not have jurisdiction to consider the issue further since the 24-hour lapse that had occurred between the District Court's refusal to extend the stay and the entry of a stay by a judge of the Court of Appeals rendered the appeal moot.[18]

According to the Court of Appeals, Section 363(m) of the Bankruptcy Code deprived Article III courts, such as Courts of Appeals, of jurisdiction to consider the propriety of the Bankruptcy Court's Order seizing and selling post-petition property. The Court of Appeals issued that determination despite the fact that PGDS maintained that the Bankruptcy Court had no jurisdiction to sell its property. In addition, the record before the Court of Appeals demonstrated that none of the parties, including the purchaser of post-petition property, had changed its position during the 24-hour period that elapsed between the District Court's refusal to stay the Bankruptcy Court's

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17 *See* Appendix at 18a.

18 *See* Order of the Court of Appeals for the Second Circuit Dated December 4, 1996, Appendix at 1a.

Order and the issuance of a stay by a judge of the Court of Appeals. The record indicated, for example, that even though the sale of assets had technically "closed," $1,000,000 of the total $3,650,000 purchase price had not yet been paid.[19] The record further shows that although $2,650,000 had been transferred to the Trustee, it was being held in a bank account and was not to be disbursed until the appeal had been decided.[20] The record also indicated that no change in position had occurred by any of the parties with respect to the property involved in the case – *i.e.*, the post-petition designs.

REASONS FOR GRANTING THE WRIT

I. This Case Presents Important Constitutional Issues Concerning The Extent to Which Bankruptcy Courts Can Deprive Citizens of Their Rights and Property Without Recourse to Article III Courts.

In *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*,[21] the Court held that "[p]rivate-rights disputes . . . lie at the core of the historically recognized judicial power."[22] The Court therefore held that legislation that conferred full plenary powers on legislative courts – *viz.*, the Bankruptcy Courts – was contrary to fundamental constitutional principles. The Court stated that acceptance of that arrangement:

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[19] It is petitioner's understanding that the $1,000,000 has still not been paid to the bankruptcy trustee.

[20] *See* Appendix at 2a.

[21] 458 U.S. 50, 103 S.Ct. 2858 (1982)

[22] *Id.* at 70.

> . . . would require that we replace the principles delineated in our precedents, rooted in history and the Constitution, with a rule of broad legislative discretion that could effectively eviscerate the constitutional guarantee of an independent Judicial Branch of the Federal Government.[23]

We would respectfully suggest that Section 363(m) of the Bankruptcy Code as applied to the petitioner in this case has produced the very danger which led the Court to rule portions of the Bankruptcy Code unconstitutional in *Marathon*.

In this case, the Bankruptcy Court seized and sold at auction, property that was never part of the bankruptcy estate at the time a Chapter 11 bankruptcy petition was filed. The property – designs created by Paolo Gucci – was entirely created *after* the bankruptcy filing and was assigned to petitioner PGDS for licensing, manufacturing and distribution. Despite the fact that it had no jurisdiction over this property, the Bankruptcy Court nonetheless proceeded to seize and sell it. When petitioner PGDS appealed the Bankruptcy Court's Order, the Court of the Appeals dismissed the appeal, ruling that Section 363(m) deprived it of jurisdiction to hear a challenge to the decision of the Bankruptcy Court.

The ruling of the Court of Appeals has drastic implications. Under the ruling, a Bankruptcy Court can seize the property of any person in this country and sell it without that person ever having recourse to an Article III court. The issues presented involve the abrogation of

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[23] *Id.* at 74.

fundamental rights. It is, moreover, particularly important for this Court to consider these issues in view of the frequency of Bankruptcy Court proceedings in the American economy.

We, therefore, respectfully suggest that it is most important that this Court determine whether Section 363(m) of the Bankruptcy Code violates Article III of the Constitution to the extent that it deprives citizens of recourse to Article III courts when their property is seized and sold by Bankruptcy Courts.

II. This Case Presents Important Issues That Have Been Resolved Differently by the Courts of Appeals for the Second, Third and Tenth Circuits.

In this case, the Court of Appeals for the Second Circuit dismissed PGDS' appeal from a Bankruptcy Court Order seizing and selling its property. The Court of Appeals apparently considered the appeal moot since it believed that no effective remedy could be provided in view of the provisions of Section 363(m). The Court of Appeals adopted that position even though the bankruptcy estate had received at least $2,650,000 as a result of the sale of that property and was anticipating receiving an additional $1,000,000.

The Courts of Appeals for the Tenth Circuit and the Third Circuit have taken diametrically different approaches. In *In re Osborn,*[24] the Court of Appeals for the Tenth Circuit held that Section 363(m) did not prevent the Court

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[24] 24 F.3d 1199 (10th Cir. 1994).

from considering an appeal from the sale of property by a Bankruptcy Court to a third party. According to the Court of Appeals for the Tenth Circuit, a constructive trust consisting of the proceeds of the sale could be created to provide some measure of relief in the event the petitioners prevailed in their appeal.

That same type of trust would afford the same measure of relief in the present case since at the time the Court of Appeals for the Second Circuit dismissed the PGDS appeal, a bank account controlled by the Trustee contained $2,650,000 which represented the proceeds of the sale. In addition, under the terms of the sale, an additional $1,000,000 was to be remitted to the Bankruptcy Trustee to complete the sale.

The decision of the Court of Appeals for the Second Circuit is also contradicted by an *en banc* decision of the Court of Appeals for the Third Circuit. In *In re Swedeland Development Group, Inc.*,[25] the Third Circuit considered whether Section 364(e) of the Bankruptcy Code required it to dismiss an appeal as moot. Section 364(e) involves loans and security interests approved by a Bankruptcy Court. It contains language that is virtually identical to Section 363(m) with respect to the permissibility of appeals.[26] The case

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25 16 F.3d 552 (3d Cir. 1994).

26 Section 364(e) states: "The reversal or modification on appeal of an authorization under this section to obtain credit or incur debt, or of a grant under this section of a priority or a lien, does not affect the validity of any debt so incurred, or any priority or lien so granted, to an entity that extended such credit in good faith, whether or not such entity knew of the pendency of the appeal, unless such authorization and the incurring of such debt, or the granting of such priority or lien, were stayed pending appeal."

before the Court involved an appeal by a bank that had a pre-bankruptcy lien on real property and proceeds of the debtor. The Bankruptcy Court had permitted the estate to enter into other loans that would be superior in interest to the bank's security interest. The bank appealed the decision even though the loans had closed and proceeds had been disbursed.

Rejecting an argument that the appeal was moot, the Court of Appeals for the Third Circuit held that:

> . . . there is no escape from the logic that inasmuch as section 364(e) provides for the consequences of the reversal or modification of an order under section 364(d) when the order has not been stayed pending appeal, it is impossible to conclude that section 364(e) in itself requires that an appeal be dismissed if a stay is not obtained.[27]

The Court of Appeals for the Third Circuit also ruled that since all loan proceeds had not yet been disbursed, there is no reason why some measure of relief could not be granted on an appeal:

> . . . we see no reason why section 364(e) should be understood to protect a lender with respect to money it has not disbursed. Surely if a section 364(d) order is reversed and thereafter the lender makes no further disbursements, the lender does not need protection for the funds which it has retained.[28]

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[27] 16 F.3d at 559.

[28] *Id.* at 561.

The factual situation is the same in this case – but with a different resolution. At the time the Court of Appeals for the Second Circuit considered the PGDS appeal, the buyer of post-bankruptcy petition assets had not yet paid the full purchase price for those assets.[29] Moreover, $2,650,000 of the purchase price was still being held by the Trustee under an agreement that it would not be disbursed until the Court of Appeals had ruled on the matter.[30] The Court of Appeals for the Second Circuit could certainly have provided the same remedies to PGDS that the Third Circuit provided in *Swedeland.*

The circumstances under which appeals can be taken from Bankruptcy Court orders are a most important facet of the administration of the bankruptcy laws. We respectfully suggest that certiorari should be granted to resolve a conflict between the Circuits.

CONCLUSION

In recent years bankruptcy proceedings nave been used as a routine business device by both debtors and creditors. As a result, bankruptcy cases cast a very wide net. It is therefore important that courts be mindful of the potential infringement of individual property rights that may result from Bankruptcy Court proceedings. This case illustrates the danger.

A Bankruptcy Court has seized and sold intellectual property which it acknowledges was created *after* the filing

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[29] As stated above, it is our understanding that the buyer, Guccio Gucci S.p.A. and Gucci America, Inc., has still not remitted to the bankruptcy estate $1,000,000 of the full $3,650,000 purchase price.

[30] *See* Appendix at 2a.

of a Chapter 11 bankruptcy petition. That Bankruptcy Court has also issued an injunction prohibiting third parties from exercising their contractual rights to license and market products based on that intellectual property. In the face of the Bankruptcy Court's attempt to exercise jurisdiction over post-petition property, the Court of Appeals for the Second Circuit has stated that it may not even consider an appeal from the Bankruptcy Court's decisions and orders. The Second Circuit adopted that position despite the fact that only 24 hours elapsed between the dissolution of a stay and the entry of a new stay by a judge of the Court of Appeals and despite the fact that the status quo remained essentially unchanged during that 24-hour period.

The Orders entered by the Court of Appeals for the Second Circuit impinge on the fundamental and historic rights of citizens to bring their grievances to Article III courts. They also contradict decisions of the Court of Appeals for the Third Circuit and the Court of Appeals for the Tenth Circuit with respect to the same or similar issues. Both of these courts have refused to dismiss appeals under similar circumstances and have found a basis for correcting errors of the Bankruptcy Court.

Petitioner Paolo Gucci Design Studio, Ltd. respectfully requests that a writ of certiorari be granted so that this Court can review these important issues.

Respectfully submitted,

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February 12, 1997 *Attorneys for Petitioners*

APPENDICES

APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Nos. 96-5138 (L) and 96-5142 (CON)

In Re: PAOLO GUCCI,
Debtor.

LICENSING BY PAOLO, INC., PAOLO GUCCI DESIGN STUDIO, LTD. and TRACKWISE SALES CORP.,
Appellants,

v.

FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, ET AL., GUCCIO GUCCI, S.P.A. and GUCCI AMERICA, INCORPORATED,
Appellees.

December 4, 1996

ORDER

Since the sale closing has occurred, whether or not some funds remain to be paid, appellants' motion to stay the District Court's order of November 21, 1996, is denied as moot. The emergency stay previously entered by Judge Leval and continued by this panel pending disposition of the pending stay motion, has therefore ended.

Appellees' motion to dismiss the appeal as moot is granted in part and denied in part. Our jurisdiction over an unstayed order for a completed sale, ordered by a bankruptcy court, is extremely limited. See 11 U.S.C. § 363(m); United Stat v. Salerno, 932 F.2d 117, 123 (2d Cir. 1991). We may review the order for the sale only to determine the limited issue of whether the property was sold to a good faith purchaser. The appeal is therefore moot and is dismissed, except to the extent that an appeal is available on that limited issue. The appeal, limited to the issue of whether the sale was made to a good faith purchaser, has been expedited per the schedule announced in open court on December 3, 1996.

In aid of our appellate jurisdiction, we Order that the appellees not destroy any property acquired pursuant to the sale, pending disposition of the appeal. The Trustee has agreed in open court not to disburse proceeds of the sale, pending disposition of the appeal.

/s/ Jon O. Newman
Chief Judge.

/s/ James L. Oakes (by J.O.N)

/s/ Ralph K. Winter (by J.O.N.)
Circuit Judges.

APPENDIX B

UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Nos. 96-5138 (L) and 96-5142 (CON)

In Re: PAOLO GUCCI,
Debtor.

LICENSING BY PAOLO, INC., PAOLO GUCCI DESIGN STUDIO, LTD. and TRACKWISE SALES CORP.,
Appellants,

v.

FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, ET AL., GUCCIO GUCCI, S.P.A. and GUCCI AMERICA, INCORPORATED,
Appellees.

December 13, 1996

ORDER

Upon consideration of the petition for rehearing, the petition is denied. Our prior order limiting the appeal to the issue of the purchaser's good faith should be understood to include the issue of whether the purchaser in good faith was unaware that the sale included post-petition property of the debtor. That order should also be understood to be without prejudice to whatever claims might be asserted against the trustee for sale of post-petition property. We express no views on whether the sale included any post-petition property. An opinion will be issued explicating the reasons for our prior order.

/s/ Jon O. Newman
Chief Judge.

/s/ James L. Oakes (by J.O.N.)

/s/ Ralph K. Winter (by J.O.N.)
Circuit Judges.

APPENDIX C

UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Nos. 96-5138, 96-5142, 96-5144,
96-5146, 96-3133 (mandamus)

Present:

HONORABLE AMALYA L. KEARSE

HONORABLE RICHARD J. CARDAMONE

Circuit Judges

HONORABLE MILTON POLLACK

District Judge[1]

In Re: PAOLO GUCCI,
Debtor.

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[1] Honorable Milton Pollack, United States District Court Judge for the Southern District of New York, sitting by designation.

LICENSING BY PAOLO, INC., PAOLO GUCCI DESIGN STUDIO, LTD. and TRACKWISE SALES CORPORATION and OROLOGI PAOLO, INC.,

Appellants,

-against-

FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, ET AL., GUCCIO GUCCI, S.P.A. and GUCCI AMERICA, INCORPORATED,

Appellees.

December 24, 1996

ORDER

Appellants Licensing by Paolo, Inc., Paolo Gucci Design Studio, Ltd., Trackwise Sales Corp., and Orologi Paolo, Inc. seek reversal of an order by the United States Bankruptcy Court for the Southern District of New York (Gallet, J.), approving the sale of bankruptcy estate assets. The sale was consummated on November 22, 1996, one day after the United States District Court for the Southern District of New York (Griesa, C.J.) affirmed the bankruptcy court's order. Appellants brought an expedited appeal to this Court, making a variety of challenges to the bankruptcy court's sale order. By order dated December 4, 1996 a panel of this Court dismissed the appeal as moot, except to the extent that the issue was whether purchaser Guccio Gucci acted in good

faith as required under 11 U.S.C. § 363 (m). The panel also ordered appellees not to destroy any property acquired pursuant to the sale, pending disposition of the appeal and noted that the Trustee had agreed in open court not to disburse proceeds of the sale, pending disposition of the appeal. By order filed December 13, 1996 the panel denied reconsideration, noting that an opinion would follow, and stating, inter alia, that the December 4 order dismissing claims other than that of whether Guccio Gucci was a good faith purchaser was without prejudice to any claims that might be asserted against the Trustee for sale of post-petition property, if any. Argument was heard on the undismissed portion of the appeal on December 17, 1996.

Trackwise filed for a writ of mandamus, or alternatively a writ of prohibition, directing Bankruptcy Judge Gallet to rule on a pending motion made by Trackwise in its pending bankruptcy proceeding.

Upon consideration of the parties' briefs and arguments, it is hereby ordered that the district court's order approving the sale of the bankrupt Paolo Gucci estate assets be and it hereby is affirmed, without prejudice to whatever claims might be asserted against the Trustee for sale of post-petition property, if any. An opinion explicating our analysis will follow.

It is hereby ordered that Trackwise's petition be and it hereby is denied, without prejudice to Trackwise's similar request for relief in the United States District Court for the Southern District of New York.

/s/ Amalya L. Kearse
Hon. Amalya L. Kearse, U.S.C.J.

/s/ Richard J. Cardamone
Hon. Richard J. Cardamone, U.S.C.J.

/s/ Milton Pollack
Hon. Milton Pollack, U.S.D.J.

APPENDIX D

UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Nos. 96-5138 (L), 96-5142 (CON), 96-5144 (CON), 96-5146 (CON) and 96-3133 (CON)

In re: PAOLO GUCCI,
Debtor.

LICENSING BY PAOLO, INC., PAOLO GUCCI DESIGN STUDIO, LTD. and TRACKWISE SALES CORPORATION and OROLOGI PAOLO, INC.,
Appellants,

v.

FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, ET AL., GUCCIO GUCCI, S.P.A. and GUCCI AMERICA, INCORPORATED,
Appellees.

Argued: December 3, 1996 - Decided: January 30, 1997

OPINION

Before: NEWMAN, Chief Judge, OAKES and WINTER, Circuit Judges.

Motion for stay pending appeal and cross-motion to dismiss appeal from a judgment of the United States District Court for the Southern District of New York (Thomas P. Griesa, Chief Judge), affirming an order of the Bankruptcy Court (Jeffry H. Gallet, Bankruptcy Judge) to sell property of a debtor.

Motion for stay denied as moot; motion to dismiss appeal granted in part and denied in part.

Melvin Goldstein, Goldstein & Claxton, Washington, D.C., for appellants Licensing By Paolo, Inc. and Paolo Gucci Design Studio, Ltd.; Michael S. Kimm, Hackensack, N.J. for appellant Trackwise Sales Corp.; Allan C. Samuels, Kenneth Greenwald, Parker Duryee Rosoff & Haft, New York, N.Y., for appellant Orologi Paolo, Inc.

Jonathan L. Flaxer, Winick & Rich, for appellee Frank G. Sinatra, Trustee; Robert Serio, Gibson, Dunn & Crutcher, New York, N.Y.,

for appellees Guccio Gucci, S.P.A.;
and Gucci America, Incorporated.

David R. Kittay, Kittay, Gold &
Krebsbach,
White Plains, N.Y.,
for the Creditors' Committee.

JON O. NEWMAN, Chief Judge:

On this motion to dismiss an appeal involving a bankruptcy sale, we write to alert district judges to a major and perhaps unappreciated significance of their action, after denying a stay pending appeal, in denying even a one-day stay to permit a party to seek a stay pending appeal from the Court of Appeals. This matter arises on a motion to stay a bankruptcy sale order pending appeal and a cross-motion to dismiss the appeal as moot. The motion to dismiss presents the issue of whether and to what extent our appellate jurisdiction remains to review a bankruptcy court order for the sale of a debtor's assets when the district court has denied an application to stay the sale pending appeal and the sale has closed before the appeal is heard. We hold that pursuant to Bankruptcy Code § 363 (m) we have no jurisdiction to review an unstayed sale order once the sale occurs, except on the limited issue of whether the sale was made to a good faith purchaser.

Facts

On October 15, 1996, Bankruptcy Judge Gallet entered an order authorizing the Chapter 11 trustee (the

"Trustee") for the estate of Paolo Gucci et al., to sell Paolo Gucci trademark and licensing rights to appellees, Guccio Gucci, S.p.A. and Gucci America Inc. The appellants, Trackwise Sales Corporation, Licensing by Paolo, Inc. ("LBP") and Paolo Gucci Design Studio, Ltd. ("PGDS") immediately sought a stay pending appeal of Judge Gallet's order to the District Court. Judge Gallet denied the stay, but delayed the sale to afford the appellants a brief interval to seek a stay in the District Court. After initially expediting the appeal to the District Court, Chief Judge Griesa, at a hearing on November 21, 1996, affirmed Judge Gallet's sale order, and declined to stay the sale order pending further appeal to this Court, finding that the appellants had little likelihood of success on the merits. In a further ruling the same day, one that has now assumed critical importance, Chief Judge Griesa also denied even a brief stay to enable the appellants to seek from this Court a stay pending appeal.

The appellants then expeditiously moved in this Court for an emergency stay pending panel consideration of a motion for a stay pending appeal. Under our Court's usual practice, the emergency motion was treated as one-judge motion and granted by Judge Leval on November 22, 1996. However, hours before he acted, the sale was consummated by the conveyance of the assets and a wire transfer of funds. On December 3, 1996, this panel heard the appellants' motion for a stay pending appeal and the appellees' cross-motion to dismiss the appeal as moot because the sale had closed prior to the filing of Judge Leval's stay order. We continued the emergency stay to afford us a brief opportunity to consider the argued motions, reserved decision on those motions, and expedited the appeal.

The next day, we filed an order denying as moot the motion for a stay pending appeal "[s]ince the sale closing has occurred, whether or not some funds remain to be paid." Licensing by Paolo, Inc. v. Sinatra (In re Paolo Gucci), No. 5138 (2d Cir. Dec. 4, 1996). That order recited that it ended the emergency stay previously entered by Judge Leval and briefly extended by the panel. Id. The same order also granted in part the appellees' motion to dismiss the appeal as moot, except to the extent that an appeal is available on the limited issue of whether the property was sold to a good faith purchaser. Id. We also ordered, in aid of our appellate jurisdiction, that the appellees not destroy any property acquired pursuant to the sale, pending disposition of the appeal. The Trustee had previously agreed at the December 3 argument on the motions not to disburse proceeds of the sale, pending the appeal.

On December 13, 1996, we denied appellants' petition for rehearing, but clarified our prior order to include in the issue of good faith the question of whether the purchaser in good faith was unaware that the sale included post-petition property. Licensing by Paolo, Inc. v. Sinatra (In re Paolo Gucci), No. 96-5138 (2d Cir. Dec. 13, 1996). We also stated that our prior order should be understood to be without prejudice to whatever claims might be asserted against the Trustee for sale of post-petition property. Id. Finally, we stated that we would issue an opinion explaining the reasons for the December 4 order. Id.

Discussion

Our appellate jurisdiction over an unstayed sale order issued by a bankruptcy court is statutorily limited to the narrow issue of whether the property was sold to a good

faith purchaser. See 11 U.S.C. § 363 (m); United States v. Salerno, 932 F.2d 117, 123 (2d Cir. 1991). Section 363 (m) provides:

> The reversal or modification on appeal of an authorization . . . of a sale or lease of property does not affect the validity of a sale or lease under such authorization to an entity that purchased or leased such property in good faith, whether or not such entity knew of the pendency of the appeal, unless such authorization and such sale or lease were stayed pending appeal.

11 U.S.C. § 363 (m). Though this provision in terms states only that an appellate court may not "affect the validity" of a sale of property to a good faith purchaser pursuant to an unstayed authorization, and can even be read to imply that an appeal from an unstayed order may proceed for purposes other than affecting validity of the sale, courts have regularly ruled that the appeal is moot. See, e.g., Ewell v. Diebert (In re Ewell), 958 F.2d 276, 280 (9th Cir. 1992); Anheuser-Busch, Inc. v. Miller (In re Stadium Management Corp.), 895 F.2d 845, 847 (1st Cir. 1990); Cargill, Inc. v. Charter International Oil Co. (In re The Charter Co.), 829 F.2d 1054, 1056 (11th Cir. 1987). As one court reasoned, the appeal is moot because "the court has no remedy that it can fashion even if it would have determined the issues differently." Stadium Management, 895 F.2d at 847; see The Charter Co., 829 F.2d at 1056.[1] Thus, regardless of the merit of an

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[1] It is not entirely clear why an appellate court, considering an appeal from an unstayed but unwarranted order of sale to a good faith purchaser, could not order some form of relief other than invalidation of the sale. See, e.g., In re Lloyd, 37 F.3d 271, 273 (7th Cir. 1994) (claim for return

appellant's challenge to a sale order, we may neither reverse nor modify the judicially-authorized sale if the entity that purchased or leased the property did so in good faith and if no stay was granted.

We have recognized that a rule limiting appellate jurisdiction over unstayed sale orders to the issue of good faith furthers the policy of finality in bankruptcy sales, Salerno, 932 F.2d at 123, and assists the bankruptcy court to secure the best price for the debtor's assets. Id. This limitation of the issues on appeal generally is warranted where an appellant did not seek a stay pending appeal, as was the case in Salerno, id. at 122, and reflects the view that an appellant is rightly burdened with the risks associated with challenging a sale authorization when that appellant did not first seek to stay the sale, see Official Committee of Unsecured Creditors of LTV Aerospace and Defense Co. v. Official Committee of Unsecured Creditors of LTV Space Co. (In re Chateaugay Corp.), 988 F.2d 322, 326 (2d Cir. 1993). The limitation also recognizes that this Court may be powerless to undo or rewrite the terms of the consummated sale. See Salerno at 123.

Yet even where an appellant timely moves to stay a judicially-authorized sale, a district court's denial of that motion will similarly limit the issues on appeal. Although an appellant's challenge to a sale authorization might raise meritorious arguments, a district court's denial of a requested stay has the effect of precluding this Court from reviewing those issues, other than the good faith of the purchaser, if the

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of land moot, but court may consider claim that proceeds are subject to homestead exemption). In any event, whatever other relief might be available could presumably be pursued in the bankruptcy court by those entitled to such relief.

sale has closed in the interim. It therefore becomes important for district judges to appreciate the special consequences of denying a stay of a bankruptcy sale, even a very brief stay to permit this Court time to consider whether it believes a stay pending appeal is warranted. We do not mean to imply that district courts should routinely grant stays pending appeal, or even routinely grant brief stays to permit this Court to consider granting such stays. There may well be substantial reasons for closing a sale promptly and assuring a good faith buyer that the sale cannot be undone. Our point is simply that, in this age of wire fund transfers, a district judge deciding whether to stay a bankruptcy sale pending appeal or pending appellate consideration of such a stay, should be aware that a closing occurring immediately after a stay is denied will substantially limit the scope of an appeal.

Conclusion

In accordance with the orders issued by this Court on December 4 and December 13, 1996, we reconfirm that the appellants' motion for a stay pending appeal has been dismissed as moot, and the appellees' motion to dismiss the appeal as moot has been granted except to the extent that the appeal challenges the good faith status of the purchaser of the debtor's assets.

APPENDIX E

UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Nos. 96-5138 and 96-5142

In re: PAOLO GUCCI, et. al. ,
Debtors.

LICENSING BY PAOLO, INC. and PAOLO GUCCI DESIGN STUDIO, LTD.,
Appellants

v.

FRANK G. SINATRA, AS TRUSTEE OF THE SUBSTANTIVELY CONSOLIDATED ESTATES OF PAOLO GUCCI, et. al., GUCCIO GUCCI, S.p.A. and GUCCI AMERICA, INC.,
Appellees.

November 22, 1996

ORDER

Motions for stay pending appeal having been made by appellants, Paolo, Inc., and Paolo Gucci Design Studio, Ltd., and by movant, Trackwise Sales Corp.,

Upon consideration thereof, IT IS HEREBY ORDERED that said motions be, and they hereby are, GRANTED, only to the extent that a temporary stay is issued in each case pending a hearing on these motions for stay. IT IS FURTHER ORDERED that said hearing on each of the motions be held on Tuesday, December 3, 1996, at 10:00 AM.

FOR THE COURT:
GEORGE LANGE III, CLERK
by:
/s/ Beth J. Meador
Beth J. Meador, Administrative
[at]torney

APPENDIX F

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

No. 96 Civ. 8690

In re: PAOLO GUCCI

New York, N.Y.
November 21, 1996
4:20 p.m.

TRANSCRIPT SELECTION

Before:

HON. THOMAS P. GRIESA,

District Judge

THE COURT: Is there an application for further stay?

MR. GOLDSTEIN: Yes, your Honor.

THE COURT: I think I know the reason. What is the position of the other people on that application?

MR. FLAXER: Judge --

THE COURT: I assume the losing parties will go to the Court of Appeals. . . . If they are going to appeal, the Court of Appeals can accelerate. This is toward the end of November, but they can accelerate. They can at least decide whether they are going to stay.

MR. GOLDSTEIN: [T]he injury is certainly irreparable. If you do not grant the stay, we cannot appeal.

THE COURT: . . .
I'm denying the application for a stay.

MR. GOLDSTEIN: Your Honor, would you consider a stay until we can apply to the Court of Appeals for a stay?

THE COURT: I don't think there is anything. No, I am really not going to grant a stay at all.

(Adjourned)

APPENDIX G

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

M

In re: PAOLO GUCCI, et. al.,
Debtors.

October 16, 1996

STIPULATION AND ORDER

IT IS HEREBY STIPULATED AND AGREED by and among the undersigned that the order of the bankruptcy court, dated October 15, 1996, be and hereby is stayed up to and including November 20, 1996; and

IT IS FURTHER STIPULATED AND AGREED that appellants shall serve their opening briefs by telecopy on or before noon on October 29, 1996; answering briefs shall be served by telecopy on or before noon on November 10, 1996; and reply briefs shall be served by telecopy on or before 5:00 p.m. on November 15, 1996; and

IT IS FURTHER STIPULATED AND AGREED THAT ALL BRIEFS shall be filed on or before 5:00 p.m. on November 15, 1996; and in lieu of designating the record on appeal under Bankruptcy Rule 8006, the parties shall submit to the court a joint appendix on or before 5:00 p.m. on November 15, 1996; and the hearing of this appeal shall be heard on November 20, 1996 at 3:00 p.m.

Dated: New York, New York
October 16, 1996

WINICK & RICH, P.C.
By: /s/ Scott H. Wyner
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Attorneys for Licensing by Paolo, Inc. and Paolo Gucci Design Studio, Ltd.

SO ORDERED THIS 16th DAY OF OCTOBER 1996:

/s/ Thomas P. Griesa
United States District Judge

APPENDIX H

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

Substantively Consolidated
Chapter 11 Case No.
94 B 40614 (JHG)

In re PAOLO GUCCI, et al.,
Debtors.

October 15, 1996

ORDER (A) APPROVING SALE OF PAOLO GUCCI NAME, TRADEMARKS AND LICENSING RIGHTS FREE AND CLEAR OF LIENS, CLAIMS AND ENCUMBRANCES PURSUANT TO SECTION 363 OF THE BANKRUPTCY CODE, (B) REJECTING CERTAIN LICENSE AGREEMENTS PURSUANT TO SECTION 365 OF THE BANKRUPTCY CODE, AND (C) CONFIRMING AND APPROVING TERMINATION OF THE STIPULATION WITH TRACKWISE SALES CORPORATION

Upon (a) the Motion (the "Sale Motion") of Frank G. Sinatra, as trustee appointed in the above-captioned chapter 11 cases (the "Trustee"), for an order under section 363 of title 11 of the United States Code (the "Bankruptcy Code") approving the sale of the Purchased Assets (as defined below) to Guccio Gucci S.p.A. and Gucci America, Inc. (collectively, "Gucci") on the terms and conditions set forth in Gucci's offer dated March 26, 1996 (the "Initial Gucci Offer"), as waived, modified, augmented and supplemented in (i) the record of the hearings held in connection with the Global Settlement Motion and the Creditors' Committee Motion (as such terms are defined below), (ii) Gucci's Confirmation of Modifications dated May 22, 1996, (iii) a letter dated July 13, 1996 from Patton Boggs LLP, co-counsel to Gucci, to Kittay, Gold & Krebsbach, counsel to the Creditors' Committee and (iv) a letter dated August 5, 1996 from Gibson, Dunn & Crutcher LLP, co-counsel to Gucci, to Winick & Rich, P.C., counsel to the Trustee (the Initial Gucci Offer as so waived, modified, augmented and supplemented, the "Gucci Offer"), (b) the Motion of the Trustee dated December 19, 1995 (the "Global Settlement Motion") for approval of (i) that certain agreement dated as of October 3, 1995, as amended, by and among the Trustee, Paolo Gucci, Paolo Gucci Design Studio, Ltd. ("PGDS"), Penelope Jayne Armstrong, Centralbest Limited and Normans Ltd. (the "PG Settlement") and (ii) the rejection of certain license agreements under section 365(a) of the Bankruptcy Code, (c) the Motion of the statutory committee of unsecured creditors (the "Creditors Committee") dated March 27, 1996 for an order under section 363 of the Bankruptcy Code approving the sale of the Purchased Assets to Gucci in accordance with the Initial Gucci Offer (the "Creditors' Committee Motion"), (d) the Motion of the Trustee dated March 13, 1996, as supplemented in the Supplemental Motion of the Trustee dated July 12, 1996 (as

supplemented, the "Trackwise Motion"), for an order, among other things, (i) approving the termination and rejection under section 365(a) of the Bankruptcy Code of the license agreement between P.G. Creative Ltd. and Trackwise Sales Corporation ("Trackwise") and (ii) confirming the termination of the Stipulation of Settlement dated November 9, 1995, as amended, between the Trustee and Trackwise (the "Trackwise Stipulation"), (e) the Motion of PGDS dated May 3, 1996, as amended by Amended Motion dated September 3, 1996, for an order determining that certain designs created by Paolo Gucci are not property of the Estate and that PGDS owns such designs and the right to use the Paolo Gucci name in connection therewith (as amended, the "PGDS Motion"), (f) the Motion of Orologi Paolo, Inc. ("Orologi") dated August 23, 1996 for reconsideration of the Court's bench ruling on August 9, 1996 (the "Reconsideration Motion"), (g) the Motion of PGDS dated September 3, 1996 for an order removing the Trustee (the "Removal Motion"), (h) the Motion of PGDS dated September 3, 1996 for an order appointing an expert witness (the "Expert Motion"), (i) the Motion of Crown Corporation for an order holding Gucci in contempt (the "Contempt Motion"), (j) the Motion of Jennifer Puddefoot Gucci ("JPG") dated August 27, 1996 for a declaration of ownership of certain intellectual property rights and fixing compensation for such rights (the "JPG Motion"), and (k) the Motion of Gucci dated August 27, 1996 to quash a subpoena issued to Domenico De Sole, Gucci's chief executive officer, on behalf of Orologi (the "Motion to Quash") (collectively, the "Motions"); and upon consideration of the Motions, the pleadings filed in connection therewith and the responses and objections interposed in respect thereof; and the Court having conducted an auction of the Purchased Assets on May 15, 20 and 21, 1996 and August 2, 1996; and the Trustee having determined that the Gucci Offer constitutes the highest

and best offer for the Purchased Assets and is in the best interests of the estate; and the Trustee having withdrawn the Global Settlement Motion to the extent that it seeks approval of the PG Settlement, inclusive of the master license agreement dated October 3, 1995 between Paolo Gucci and PGDS; and the Creditors' Committee having withdrawn the Creditors' Committee Motion; and upon the amended decision of the Court dated October 9, 1996; and upon the record of the hearings held, testimony taken and documents admitted in evidence in respect of the Motions and the sale of the Purchased Assets to Gucci, and all other proceedings had before the Court; and after due deliberation and sufficient cause existing therefor, it is FOUND, DETERMINED AND DECREED

1. The "Purchased Assets" consist of the following property owned or held, on or at any time after the commencement of the chapter 11 cases, by, on behalf of, for the benefit of or in the name of Paolo Gucci, any entity owned or controlled by Paolo Gucci or the Estate:

a) all trademarks, service marks, trade names, business names and commercial names that contain the words "Paolo", "Gucci" or "Paolo Gucci" throughout the world, including, but not limited to, the United States of America, Japan and Korea;

b) all registrations, renewals, applications for registration, applications for renewal and similar or related documents relating to the trademarks, service marks, trade names, business names and commercial names referred to in the foregoing paragraph throughout the

world, including, but not limited to, the United States of America, Japan and Korea;

c) all good will of the business or businesses symbolized by the trademarks, service marks, trade names, business names and commercial names referred to in the foregoing paragraph;

d) all rights to use the name "Paolo Gucci" commercially (including, but not limited to, all rights under the Final Judgment, dated July 13, 1988, as modified, in *Paolo Gucci v. Gucci Shops, Inc.,* 83 Civ. 4453 (WCC) (S.D.N.Y.), and all other rights to identify products as having been designed or selected by, or under the supervision, direction or authority of, or with the approval of, Paolo Gucci), and all good will associated therewith, throughout the world, including, but not limited to, the United States of America, Japan and Korea;

e) every design, process, invention, trade secret, computer program, formula and similar property relating to any and all products designed or selected by, or to any and all designs created or selected by or under the supervision, direction or authority of, or approved by, Paolo Gucci, whether designed, selected or approved before or after the commencement of the above-captioned chapter 11 cases, used or to be used in connection with the name "Paolo Gucci" either alone or in combination with other words or symbols; and

f) any and all rights to license the use of any of the foregoing, subject to the right, title and interest of the Estate under the licensing agreement dated August 15, 1994 (the "Orologi License") between the Trustee and Orologi through its expiration on December 31, 2004 or its earlier termination (but upon the expiration or termination of such licensing agreement such right, title and interest shall revert to Gucci).

2. The Purchased Assets constitute property of the Estate under section 541 of the Bankruptcy Code.

3. PGDS does not own, or have the right to use or license, any or all of the Purchased Assets.

4. The Gucci Offer constitutes the highest and best offer for the purchase of the Purchased Assets and the sale by the Trustee to Gucci of the Purchased Assets on the terms and conditions of the Gucci Offer is in the best interests of the Estate and its creditors.

5. Gucci is a good faith purchaser of the Purchased Assets within the meaning of section 363(m) of the Bankruptcy Code.

6. Notice of the auction, the hearings to consider the Motions and the sale of the Purchased Assets to Gucci and the presentment of this Order was adequate and appropriate under the circumstances within the meaning of section 102 of the Bankruptcy Code.

7. Under section 363 of the Bankruptcy Code, the Trustee is hereby authorized to sell the Purchased Assets to Gucci on the terms and conditions set forth in the Gucci Offer.

8. Under section 363(f) of the Bankruptcy Code, the Purchased Assets shall be sold and conveyed to Gucci free and clear of any and all liens, claims and encumbrances with all such liens, claims and encumbrances attaching to the proceeds of sale.

9. Any person possessing designs created or selected by or under the supervision, direction or authority of, or approved by, Paolo Gucci after February 8, 1994 ("Postpetition Designs") shall deliver forthwith such designs to Gucci, subject to the right of Orologi to utilize any Postpetition Designs it may have under, and subject to the terms and conditions of, the Orologi License.

10. Any person (other than Gucci) possessing Postpetition Designs is enjoined from using those designs in connection with the names "Gucci" or "Paolo Gucci" or the phrase "Paolo by Paolo Gucci" and from using the "Paolo Gucci" name commercially, subject to the right of Orologi to utilize any Postpetition Designs it may have under, and subject to the terms and conditions of, the Orologi License.

11. The Trustee's termination of the Trackwise Stipulation is confirmed and approved and the Trustee shall have no further obligations thereunder.

12. The termination of all license agreements between Paolo Gucci and/or P.G. Creative Ltd. and Trackwise is hereby approved.

13. The rejection of each of the license agreements listed in Exhibit A hereto is hereby approved under section 365 of the Bankruptcy Code, subject to the agreement between Gucci and Gem International, Inc.

14. The Trustee is authorized and directed to waive and release Gucci from liability for any and all claims asserted in the action entitled *Frank G. Sinatra v. Guccio Gucci S.p.A.*, 95 Civ. 10578, and dismiss such action with prejudice.

15. The Trustee is hereby authorized and directed forthwith to move for, and use all reasonable, good faith efforts to obtain, (a) an order requiring that all designs created or selected by, or under the supervision, direction or authority of, or approved by, Paolo Gucci be delivered to Gucci subject to the right of Orologi to use the designs referred to in clause (b) hereof until the expiration or earlier termination of the Orologi License, and (b) an order requiring that all designs created or selected by, or under the supervision, direction or authority of, or approved by, Paolo Gucci and used or intended to be used by Orologi be deposited with the Court and (c) an order enjoining PGDS from interfering with Gucci's exclusive right, title and interest in and to the Purchased Assets and to their use and enjoyment thereof.

16. The Trustee is authorized and directed to execute such documents and take such actions as may be necessary, appropriate or desirable to consummate the

transactions contemplated hereby and effectuate the relief granted herein.

17. The Global Settlement Motion to the extent that it seeks approval of the PG Settlement, inclusive of the master license agreement dated as of October 3, 1995 between Paolo Gucci and PGDS, and the Creditors' Committee Motion are denied as moot.

18. The JPG Motion is withdrawn, with prejudice, but without prejudice to (a) JPG's right to assert a claim to all or a portion of the proceeds of the Gucci Sale for the value of the services performed by Paolo Gucci in creating or approving the Designs, giving effect to the right of the Trustee to use the Paolo Gucci name in connection therewith, and (b) the rights of the Trustee, the Creditors' Committee or any other party in interest to object to such claim or to assert counterclaims or setoffs thereto.

19. The PGDS Motion is denied.

20. The Reconsideration Motion is denied.

21. The Removal Motion is denied as moot.

22. The Expert Motion is denied as moot.

23. The Trustee shall not consummate the sale of the Purchased Assets to Gucci before October 17, 1996 at noon.

Dated: New York, New York
October 15, 1996

/s/ Jeffry H. Gallet
United States
Bankruptcy Judge

EXHIBIT A

1. License granted by Paolo Gucci to Licensing by Paolo, Inc. as reflected by that certain agreement between Paolo Gucci, as licensor and Licensing by Paolo, Inc., as licensee dated November 14, 1992.

2. License granted by Paolo Gucci to Creazioni Creative Corp., as reflected by:

   (a) Agreement between Paolo Gucci, as licensor and Creazioni Creative Corp., as licensee dated November 9, 1988;

   (b) Confirmation of Trademark License Agreement between Paolo Gucci, as licensor and Creazioni Creative Corp., as licensee dated April 15, 1993 which clarified and confirmed Agreement between Paolo Gucci, as licensor and Creazioni Creative Corp., as licensee dated November 9, 1988; and

   (c) Termination of License Agreement between Paolo Gucci, as licensor and Creazioni Creative Corp., as licensee, (unexecuted).

3. License granted by Paolo Gucci to PG Creative Ltd. as reflected by:

   (a) Assignment and Conveyance dated November 9, 1988 by and between Paolo Gucci and PG Creative Ltd.;

(b) Assignment and Conveyance dated February 1, 1990 by and between Paolo Gucci and PG Creative Ltd. which nullified and voided the November 9, 1988 Assignment and Conveyance;

(c) Mutual Consent of Termination dated December 15, 1992 of the Assignment and Conveyance by and between Paolo Gucci and PG Creative Ltd.;

(d) Confirmation of Termination of License dated in December, 1992 by and between Paolo Gucci and PG Creative Ltd.; and

(e) Confirmation of Termination of License dated May 11, 1993 by and between Paolo Gucci and PG Creative Ltd.

4. License granted by Paolo Gucci to Marketing Group Establishment as reflected by that certain agreement between Paolo Gucci, as licensor and Marketing Group Establishment, as licensee, dated September, 1993.

5. License granted by Paolo Gucci to Jem Group & Associates, Inc. to develop the MJ Knoud retail business as reflected by that certain agreement between Paolo Gucci, as licensor and Jem Group & Associates, Inc., as licensee, dated November 14, 1992.

6. License granted by Paolo Gucci to Jem Group & Associates, Inc. to develop the retail business known as the "Paolo Shop" as reflected by that certain agreement between Paolo Gucci, as licensor and Jem Group & Associates, Inc. as licensee, dated November 14, 1992.

APPENDIX I

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

Chapter 11 Case No.
94 B 40614 (JHG)

In re PAOLO GUCCI, et al.,
Debtor

October 9, 1996

AMENDED DECISION ON MOTION TO DETERMINE WHETHER POST PETITION DESIGNS ARE PROPERTY OF THE ESTATE

APPEARANCES:

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JEFFRY H. GALLET
UNITED STATES BANKRUPTCY JUDGE

I. Introduction

Paolo Gucci Design Studio ("PGDS") moves[1] before me for an order determining that certain designs, created by Paolo Gucci ("Paolo" or the "Debtor"), after the filing of his

---

[1] The court has jurisdiction over this proceeding pursuant to 28 U.S.C. § 1334(b) and the "Standing Order of Referral of Cases to Bankruptcy Judges" of the United Sates District Court for the Southern District of New York, dated July 10, 1984 (Ward, Acting C.J.). This is a core matter under 28 U.S.C. § 157 (b) (2) (A).

bankruptcy petition, are not property of the estate. Frank G. Sinatra, the chapter 11 trustee (the "Trustee"), opposes the motion, arguing that the designs created post-petition are property of the estate. Orologi Paolo, Inc. ("OPI") and Guccio Gucci ("GG") support the Trustee's position.[2]

The genesis of this motion is the motion to approve a settlement agreement (the "Global Settlement") among the Trustee, Paolo, PGDS, Normans Ltd., Penelope Jayne Armstrong and her company, Centralbest Limited. That motion was made on December 19, 1995, shortly after Paolo's death in October. The primary element of the Global Settlement was the formation of a licensing entity, PGDS, in which Paolo and Enzo Stancato ("Stancato") would hold the master license for all of Paolo's licensing rights in the United States. In addition, Paolo would hold the remaining worldwide rights. PGDS, would enter into various sublicenses, the income, from which, would pay the estate for the rights.[3]

The Committee of Unsecured Creditors (the "Committee") objected to the Global Settlement, arguing that the Global Settlement was essentially a sale of the most valuable asset of the estate, the Paolo Gucci name, which must be done by sale pursuant to 11 U.S.C. § 363. The Committee then presented a bid by GG. I ordered an auction.

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[2] Initially, Jennifer Puddefoot Gucci, Paolo's widow, moved for an order declaring that she owned the post-petition designs. By stipulation, she acknowledged that the designs are property of the estate, and her motion has been withdrawn.

[3] Even though the motion to approve the Global Settlement was scheduled before me, Paolo may have entered into a licensing agreement with Stancato for designs created by him subsequent to the filing of the petition.

PGDS then moved to determine whether the post-petition designs created by Paolo were property of the estate.

Upon completion of the auction process, it was determined that GG was the successful bidder.

One of the requirements of the GG bid is a determination by this court that the purchased assets constitute property of the estate. GG and the Trustee claim that the purchased assets include:

> (a) all trademarks, service marks, trade names, business names and commercial names that contain the words "Paolo," "Gucci" or "Paolo Gucci";
>
> (b) all rights to use the name "Paolo Gucci" commercially including, but not limited to, all rights under the Final Judgment, dated July 1, 1988, as modified, in Paolo Gucci v. Gucci Shops, Inc. 83 Civ. 4453 (WCC) (S.D.N.Y.)
>
> (c) every design, process, invention, trade secret, computer program, formula, and similar property relating to any and all products designed or selected by, or to any and all designs created or selected by or under the supervision, direction or authority of, or approved by, Paolo Gucci, whether pre-petition or post-petition, used or to be used in connection with the name "Paolo Gucci"; and
>
> (d) all rights to license the use of any of the forgoing (subject the right, title and interest of the

estate and Orologi Paolo Corp. in connection with that certain licensing agreement dated January 1, 1990 as amended and assumed under Section 365 of the Bankruptcy Code).

PGDS claims ownership of some of that property. Therefore, in conjunction with a motion filed by PGDS, I will make the determination of whether the post-petition designs created by Paolo are property of the estate or PGDS.

II. Facts

A. The Licensing Business

In 1981, after leaving GG, Paolo created his own licensing business. That business licensed the "Paolo Gucci" name to various products.

In November 1988, Paolo entered into an agreement with Creazioni Creative Corp. (the "CCC Agreement" and "CCC"). CCC was granted the exclusive right to sublicense Paolo's trademark outside of the United States. In addition, CCC and Paolo entered into a second agreement whereby CCC agreed to hire Paolo, as an independent contractor, to create designs for CCC, act as a consultant and make promotional appearances.

At the same time Paolo entered into an agreement with P.G. Creative Ltd. (The "PG Agreement" and "PG Creative"). Under this agreement, Paolo assigned to PG Creative the "exclusive right to use for any or all lawful purposes the name 'Paolo Gucci', 'Gucci' or any other similar name or mark that in any way represents or reflects goodwill

or commercial value available to [Paolo] legally to use for commercial purposes." In addition, the PG Agreement also conveyed "[a]ll designs, creations, inventions, ideas and similar intellectual property . . . now or hereafter created by [Paolo] for commercial purposes." Moreover, the PG Agreement granted PG Creative "[t]he exclusive right to license the rights described . . . above."

PG Creative and CCC each entered into various sublicensing agreements.[4] The sublicensing agreements allowed the sublicensees to use Paolo's designs, the name "Paolo Gucci" and the phrase "Paolo Designed by Paolo Gucci." The agreements provided that the designs, ornamental appearances and copyrights for the licensed products were the "sole property of Licensor," and that Paolo was to be employed, appointed or retained as the respective licensor's designer and CCC or PG Creative agreed that Paolo would make public appearances and provide design and consultation services as required by the sublicensees.

In November 1992, Paolo entered into yet another Agreement with Licensing by Paolo (the "L.P. Agreement" and "L.P."). Under that agreement, L.P. was to regulate Paolo's licensing business in the United States with various sublicensees. Like the CCC and PG Creative Agreements,

---

[4] These sublicensing agreements included agreements with Milano Furs, for fur and leather wear; Status Eyes, Ltd., for eye wear; Orologi Paolo Corp., for watches; Mega Corp Home Furnishings and Meubles Renel Inc., for furniture; Billy Who, for certain clothing; Trackwise Sales Corp., for products in Korea; and Ultima International Pens and Accessories, for pens, key chains, picture frames, money clips and belt buckles.

PUBLISHER'S NOTE

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FOR FILMING 44a

B. The Filing

On February 4, 1994, Paolo filed a petition for relief under Chapter 11 of the Bankruptcy Code. Pursuant to Local Bankruptcy Rule 52, Soo Kim, Paolo's authorized representative, filed an affidavit which stated:

> [Paolo] is an individual whose principal business consists of the licensing of trademarks for use in various commercial ventures and design work in conjunction therewith. This petition is necessitated by several disparate litigated matters which are threatening the commercial viability of the trademarks and licenses.

In his schedules, Paolo listed as an asset his interest in certain trademarks in the United States and Korea, which he valued at $5,000,000. In addition, in response to a question concerning the nature of his business, including sole proprietorships, Paolo listed his interest in "Paolo Gucci Designs," his sole proprietorship licensing business, which utilized his trademarks and name.

After the filing, I approved the appointment of a chapter 11 trustee to administer Paolo's estate. One of the Trustee's first tasks was to investigate the various licensing businesses. Upon this investigation, the Trustee discovered that several sublicensees were actively marketing Paolo Gucci products and that there appeared to be some litigation resulting from Paolo's failure to live up to this obligations [sic] under the various licensing agreements. This litigation prevented the launching of certain products and, in addition, damaged the reputation of Paolo's sole proprietorship. Moreover, the bad publicity that Paolo had been receiving

regarding his pending divorce proceedings, as well as his mistreatment of certain horses on his horse farm, further damaged the goodwill associated with his trademarks and the use of his name.

Paolo did not assist the Trustee, post-petition, in any of the Trustee's efforts to work with the various licensees and sublicensees. Although the Trustee has no personal knowledge that Paolo created any designs post-petition, Stancato testified in a deposition that Paolo created numerous designs after the commencement of the case.

Although Paolo did not cooperate with the Trustee regarding the various licenses, eventually he did negotiate with the Trustee to resolve the case, resulting in the Global Settlement.

III. Law

11 U.S.C. § 541 defines property of the estate as "all legal or equitable interests of the debtor in property as of the commencement of the case."

> As previously stated, under section 541(a) the estate is normally comprised only of property and interests therein belonging to the debtor at the time the petition is filed. In general, property not then owned but subsequently acquired by the debtor does not become property of the estate, but becomes the debtor's, clear of all claims that are discharged by the bankruptcy proceeding.

L. King, Collier on Bankruptcy, ¶ 541.05 (15th Edition, 1996).

11 U.S.C. § 541 (a) (6) and (7) provide that property of the estate includes:

> (6) Proceeds, product, offspring, rents and profits of or from property of the estate, except such as are earnings from services performed by an individual debtor after the commencement of the case.
>
> (7) Any interest in property that the estate acquires after the commencement of the case.

11 U.S.C. § 541 (a) (6) and (7).

There is no dispute that Paolo's pre-petition property is now owned by the estate. At issue is what happens to any designs created post-petition.

> Pre-petition assets, . . . , are those assets rooted in the debtor's pre-petition activities, including any proceeds that may flow from those assets in the future. These assets belong to the estate and ultimately the creditors. Post-petition assets are those that result from the debtor's post petition activities and are his to keep free and clear of the bankruptcy proceeding.

In re Andrews, 80 F.3d 906, 910 (4th Cir.), rehearing denied, 90 F.3d 102 (4th Cir. 1996). As the Supreme Court has stated, when post-petition property "is sufficiently rooted in the pre-bankruptcy past and so little entangled with the bankrupt's ability to make an unencumbered fresh start that it should be regarded as 'property' under § 70a (5)." Segal v. Rochelle, 382 U.S. 378, 380 (1966). In Segal, the Supreme

Court determined that potential claims for loss-carryback refunds would be included in the debtor's estate because they were rooted in the pre-bankruptcy past. A similar conclusion was reached in the Andrews case where the Court of Appeals for the Fourth Circuit determined that payments to a debtor pursuant to a pre-petition non-compete agreement were not excluded under the "earnings from services performed" exception in 11 U.S.C. § 541 (a) (6). Since the court determined that the payments were clearly rooted in the debtor's pre-petition sale of its business, those payments would be included as property of the estate. In re Andrews, 80 F.3d at 911.

PGDS argues that a simple reading of 541 (a) leads to the conclusion that any property, not then owned at the commencement of the case, but acquired subsequently, does not become property of the estate, but remains the debtor's. Therefore, the designs, which Paolo created post-petition, belonged to him. In addition, PGDS argues that the post-petition designs are excluded from 11 U.S.C. 541 (a) (7) in that the designs were not acquired by the estate, post-petition, but rather they were acquired by Paolo, the debtor. Casey v. Hackman, 963 F.2d 1347 (10th Cir. 1992); In re Doemling, 127 B.R. 954 (W.D. Pa. 1991).

In Casey the Tenth Circuit determined that a patent on a device invented by the debtor after the commencement of the case, and the revenues from the invention, were property of the debtor and not property of the estate. In Doemling, the District Court for the Western District of Pennsylvania determined that the debtor's cause of action for an automobile accident which occurred five months after the commencement of the case was not property of the estate. In each case, the court relied on a literal reading of 11 U.S.C.

541 (a). However, while I agree with the holdings in Casey and Doemling, they are distinguishable here. PGDS has not established that the post-petition designs are not property of the estate. In re Cooley, 87 B.R. 432, 441 (Bankr. S.D.Tex. 1988).

PGDS fails to acknowledge that these post-petition designs, if they are to be marketed under Paolo's name, are clearly rooted in Paolo's pre-petition activity. When Paolo filed his petition, his sole business was the licensing of his name. His principal asset was his interest in his name and trademarks. That name and those trademarks, together with the designs of the licensing business, became property of the estate upon the filing of the petition. United States v. Whiting Pools, Inc., 462 U.S. 198, 204-205 & n.9 (1983). Moreover, "upon the bankruptcy of the trademark owner, the trademark together with the goodwill it symbolizes becomes vested in the trustee in bankruptcy . . . ." Johanna Farms, Inc., v. Citrus Bowl, Inc., 468 F.Supp. 866, 874 (E.D.N.Y. 1978); U.S. v. Inslaw, Inc., 932 F.2d 1467, 1471 (D.C. Cir. 1991), cert. denied, 112 S.Ct. 913 (1992).

Shortly after Paolo filed his petition, I appointed the Trustee who acceded to all the rights of the debtor, at the time of the filing. Those rights included the right to operate the business of the debtor and to administer all the property that became property of the estate, including Paolo's trademarks, designs and goodwill. 11 U.S.C. § 1108.

Utimately, the Trustee chose to sell Paolo's licensing business. The sale of a trademark includes the sale of the mark along with the goodwill and tangible business assets which go along with the trademark. United States Ozone Co. v. United States Ozone Co., 62 F.2d 881, 885-86 (7th Cir.

1933). It would be impossible for the Trustee to sell the trademark without the essential items that go along with it. "A trademark is not a property right in gross which may be sold apart from the business or goodwill with which the trademark has been associated." Marshak v. Green, 746 F.2d 927, 929 (2d Cir. 1984). Indeed, if the tangibles of a bankrupt are sold without goodwill or trademarks being sold, the trademark ceases to exist. Adams Apple Distrib. Co. v. Papeleras Reunidas, S.A., 773 F.2d 925, 931 (7th Cir. 1985).

Moreover, "[w]hen a business purchases trademarks and goodwill, the essence of what it pays for is the right to inform the public that it is in possession of the special experience and skill symbolized by the name of the original concern, and the sole authority to market its products." Levitt Corp. v. Levitt, 593 F.2d 463, 468 (2d Cir. 1979). Therefore, "[t]o protect the property interest of the purchaser, then, the courts will be especially alert to foreclose attempts by the seller to 'keep for himself' the essential thing he sold, and also keep the price he got for it." Id., citing Guth v. Guth Chocolate Co., 224 F. 932, 934 (4th Cir), cert. denied, 239 U.S. 640 (1915).

If I were to find that Paolo's post-petition designs were not property of the estate, I would essentially be creating in Paolo the right to continue the very business the Trustee sold. Paolo's ability to create designs bearing his name and trademark is so inexorably tied to the licensing business that it is impossible to separate the two. They are in fact one in the same, and each cannot exist without the other.

I agree with the Trustee's characterization that if this were a situation where Paolo designed for another company,

and those designs were to be used in conjunction with a trademark, other than "Paolo Gucci," then Paolo probably would have been entitled to retain those post-petition designs, and the revenue flowing therefrom. However, those are not the facts before me. Paolo, and his purported successor in interest, PGDS, cannot be allowed to continue the business of licensing Paolo's name and trademark. That business, which the Trustee is selling, is the exact business for which Paolo originally sought bankruptcy protection.

Therefore, it is the determination of this court that any post-petition designs created by Paolo were done to be marketed under the Paolo name and trademark and are property of the estate. Any party possessing post-petition designs shall deliver them to the Trustee, forthwith. In addition, anyone possessing designs created by Paolo is enjoined from using those designs in connection with the names "Gucci" or "Paolo Gucci" or the phrase "Paolo by Paolo Gucci" and retains no rights to use the "Paolo Gucci" name commercially. All rights to utilize the "Paolo Gucci" trademark vests with the Trustee.

Settle Order

Dated: October 9, 1996
New York, New York

/s/ (illegible)
Jeffry H. Gallet
United States Bankruptcy Judge

APPENDIX J

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

83 Civ. 4453 (WCC)

PAOLO GUCCI,
Plaintiff,

- against -

GUCCI SHOPS, INC.,
Defendant.

January 12, 1994

ORDER

This matter having come before this Court for hearings on October 16, 1992 and September 24, 1993, the Honorable William C. Conner presiding, at the United States Courthouse, Foley Square, New York, New York, and argument having been heard and considered,

IT IS ORDERED THAT:

1. This Court's Final Judgment, issued on July 13, 1988, is hereby clarified and, to the extent necessary, modified, as follows:

(a) The words "GUCCI" or "PAOLO GUCCI" may be used within the Shield Design Logo (attached to this Order as Attachment A) only

(A) as part of the complete phrase "PAOLO DESIGNED BY PAOLO GUCCI" contained within that Shield Design Logo, provided that the first word "PAOLO" is significantly larger and more prominent than any other word in the phrase, or

(B) when the Shield Design Logo is used in immediate proximity to the separately set forth phrase "PAOLO DESIGNED BY PAOLO GUCCI" and (i) the first "PAOLO" within that separately set forth phrase is significantly larger and more prominent than the words "DESIGNED BY PAOLO GUCCI" and (ii) the words "DESIGNED BY PAOLO GUCCI" are all in the same typestyle, color and size (as in Attachment C to this Order);

(b) The words "GUCCI" or "PAOLO GUCCI" may not be used within the Shield Design Logo except as provided in subparagraph (a) above;

(c) Whenever the phrase "PAOLO (or other TRADEMARK) DESIGNED BY PAOLO GUCCI" appears on a product or on a label affixed to a product, the word "PAOLO" (or other TRADEMARK) must be

significantly larger and more prominent than the words "DESIGNED BY PAOLO GUCCI," and the words "DESIGNED BY PAOLO GUCCI" must all appear in the same typestyle, color and size.

2. This Court's Final Judgment, dated July 13, 1988, is hereby clarified to reflect that paragraph 14 of the Final Judgment shall not be construed to prohibit plaintiff, Mr. Paolo Gucci, from:

(a) licensing his trademark rights to a corporation which has the right to find sub-licenses for his trademarks and designs; and

(b) permitting said corporation to grant said sub-licensees the right to use the phrases "Designed By Paolo Gucci" and/or "Selected By Paolo Gucci" in accordance with the Final Judgment;

PROVIDED ABSOLUTELY, HOWEVER, THAT

All designs indicated as being "Designed By Paolo Gucci" are, in fact, designed by Mr. Paolo Gucci, and all designs indicated as being "Selected By Paolo Gucci" are, in fact, selected by Mr. Paolo Gucci.

3. A copy of this Order shall be provided by Paolo Gucci to all persons whom he or any other person has authorized, may authorize or intend to authorize to use the name "PAOLO GUCCI," or to exercise any of Paolo Gucci's other rights under the Final Judgment, in the United States of America.

4. Except as modified by the Order, the Final Judgment shall remain in full force and effect.

5. This Court retains jurisdiction over the parties to this action for the purposes of enforcement of the Final Judgment and this Order.

/s/ William C. Conner
Sr. United States District Judge

Dated: New York, New York
January 12, 1994

Supreme Court, U.S.
FILED
MAR 14 1997
CLERK

No. 96-1283

IN THE

Supreme Court of the United States

OCTOBER TERM, 1996

PAOLO GUCCI DESIGN STUDIO, LTD.,

Petitioner,

vs.

FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, et al., GUCCIO GUCCI, S.P.A. and GUCCI AMERICA, INC.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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March 14, 1997

39 pp

QUESTIONS PRESENTED

1. Whether the Petitioner can challenge the bankruptcy court's jurisdiction over a controversy when it voluntarily submitted that controversy to the bankruptcy court for its determination without contending that the matter was "non-core" or seeking withdrawal of the reference.

2. Whether Petitioner can challenge the constitutionality of Section 363(m) of Title 11, United States Code 11 U.S.C. §101 *et seq.* (the "Code") before the Supreme Court when the contention was not raised before the court of appeals, the district court or the bankruptcy court.

3. Whether the court of appeals erred in not imposing a trust upon the proceeds of the asset sale when Petitioner never requested that the court of appeals, the district court or the bankruptcy court impose such a trust.

4. Whether Petitioner lacks standing to complain about the sale of certain assets by the bankruptcy estate when it has no interest in any of the assets sold by the bankruptcy estate.

5. Whether the court of appeals erred in finding the controversy to be moot under Section 363(m) of the Code where (i) the transaction closed prior to Petitioner obtaining a stay from the court of appeals, and (ii) it would have been impossible to restore the parties to the *status quo ante*.

6. Whether events following the decision of the court of appeals have "further mooted" this controversy precluding review by the Supreme Court.

TABLE OF CONTENTS

	Page
STATEMENT	1
Procedural Background	2
Factual Background	3
ARGUMENT	10
I. Having Submitted The Matter To The Core Jurisdiction Of The Bankruptcy Court, PGDS Cannot Now Raise A Marathon-Type Objection	10
II. PGDS Does Not Raise a True Constitutional Challenge to Code §363(m) And, In Any Event, Having Failed To Challenge The Constitutionality Of Code §363(m) Below, PGDS Is Precluded From Raising It For the First Time Before The Supreme Court	15
III. The Court Of Appeals Did Not Err In Not Imposing A Constructive Trust On The Proceeds Where PGDS Never Requested That A Constructive Trust Be Imposed	16
IV. PGDS Has No Interest In The Postpetition Designs and Accordingly Lacks Standing	17
IV. Under General Mootness Principles, The Mootness Finding Of The Court of Appeals Should Not be Reversed	20
CONCLUSION	23
APPENDIX	A-1

TABLE OF AUTHORITIES

Cases:	Page
Arizonans for Official English v. Arizona, _____ U.S. _____, _____ S.Ct. _____, 1997 WL 84990, (1997)	17, 22
Ballard Medical Products v. Wright, 821 F.2d 642 (Fed. Cir. 1987)	16
Brock v. Logan County Sheriff's Dept. of Arkansas, 3 F.3d 1215 (8th Cir. 1993)	15
BWA Corp. v. Alltrans Exp. U.S.A., Inc., 493 N.Y.S.2d 1 (1st Dep't 1985)	20
Carvel Corp. v. Diversified Management Group, 930 F.2d 228 (2nd Cir. 1991)	20
Church of Scientology of California v. U.S., 506 U.S. 9, 113 S.Ct. 447 (1992)	21
Commander Oil v. Advance Food Service Equipment, 991 F.2d 49 (2d Cir. 1993)	20
Commodities Futures Trading Commission v. Schor, 478 U.S. 833, 106 S.Ct. 3245, 92 L.Ed. 2d 675 (1986)	11
DuVoisin v. Foster, 809 F.2d 329 (8th Cir. 1987)	14
Greylock Glen Corp. v. Community Sav. Bank, 656 F.2d 1 (1st Cir. 1981)	21
Guardsman Lease Plan, Inc. v. Gibraltar Transmission Corp., 494 N.Y.S.2d 59, 129 Misc. 2d 887 (1985)	20
Holly Farms Corp. v. N.L.R.B., ____ U.S. ____, 116 S.Ct. 1396, 134 L.Ed.2d 593 (1996)	16
In re American Development Corp., 95 B.R. 735 (Bankr. C.D. Cal. 1989)	19

Cases: **Page**

In re Becker, 136 B.R. 113 (Bankr. D.N.J. 1992)..... 15

In re Caldor, Inc., 193 B.R. 182 (Bankr. S.D.N.Y. 1996)..... 18

In re CGI Industries, Inc., 27 F.3d 296 (7th Cir. 1994)..... 21-22

In re Chateauguay Corp., 10 F.3d 944 (2d Cir. 1993)..... 21

In re Duval County Ranch Co., 167 B.R. 848 (Bankr. S.D. Tex. 1996)..... 15

In re Freeman, 956 F.2d 252 (11th Cir. 1992)..... 15

In re James Wilson Assoc., 965 F.2d 160 (7th Cir. 1992)..... 18

In re Masters, Inc., 149 B.R. 289 (E.D.N.Y. 1992)... 19

In re Men's Sportswear, Inc., 834 F.2d 1134 (2d Cir. 1987)..... 14

In re National Reserve Corp., 199 B.R. 241 (Bankr. D.Mass. 1996)..... 19

In re Onouli-Kona Land Co., 846 F.2d 1170 (9th Cir. 1988)..... 21

In re Osborne, 24 F.3d 1199 (10th Cir. 1994)..... 16

In re Phoenix Steel Corp., 82 B.R. 334 (Bankr. D.Del. 1987)..... 18

In re S.G. Phillips Constructors, Inc., 45 F.3d 702 (2d Cir. 1995)..... 13

In re Sax, 796 F.2d 994 (7th Cir. 1986)..... 21

In Re Swedeland Development Group, Inc., 16 F.3d 552 (3d Cir. 1994)..... 17

Cases: **Page**

Katchen v. Landy, 382 U.S. 323, 86 S.Ct. 467, 15 L.Ed.391, (1966) 13

Langenkamp v. Culp, 498 U.S. 42, 112 S.Ct. 330, 111 L.Ed.2d. 343 (1990) 13

Matsushita Electric Industrial Co. v. Epstein, ____ U.S. ____, 116 S.Ct. 873, 134 L.Ed.2d 6 (1996)... 16

Matter of Texas General Petroleum Corp., 52 F.3d 1330, (5th Cir. 1995). 12

Mills v. Green, 159 U.S. 651, 16 S.Ct. 132 (1895) ... 21

Nau v. Vulcan Rail & Construction Co., 286 N.Y. 188, 36 N.E.2d 106 (1941) 20

Northern Pipeline Construction Co. v. Marathon Pipe Line Co., 458 U.S. 50, 103 S.Ct. 2858, 73 L.Ed.2d (1982) 10

Pipkin v. JVM Operating, L.C., 197 B.R. 47 (E.D. Tex. 1996) 13

Taubel-Scott-Kitzmiller Company, Inc. v. Fox, 264 U.S. 426, 44 S.Ct. 396, 68 L.Ed.770, (1924) 15

Topalian v. Ehrman, 954 F.2d 1125 (5th Cir. 1992), rehearing denied, 961 F.2d 215, cert. denied, 113 S.Ct 82 (1992) 15-16

Warth v. Seldin, 422 U.S. 490, 95 S.Ct. 2197, 45 L.Ed.2d 343 (1975) 17

Statutes:

11 U.S.C. §323(a) 19

11 U.S.C. §363(b) 16-17, 19

11 U.S.C. §363(c) 16

11 U.S.C. §363(m) 15-16, 21

Cases: **Page**

11 U.S.C. §364(e) 17
11 U.S.C. §521(3) 19
11 U.S.C. §1109(b) 17
28 U.S.C. §157(a) 10
28 U.S.C. §157(b) 10
28 U.S.C. §157(b)(1)(4) 15
28 U.S.C. §157(b)(3) 10, 14
28 U.S.C. §157(c) 10
28 U.S.C. §157(c)(1) 14
28 U.S.C. §157(d) 10, 13
28 U.S.C. §1334(a) 10, 15
28 U.S.C. §1334(b) 10, 15
28 U.S.C. §1334(e) 10, 15
28 U.S.C. §2403(a) 16

No. 96-1283

IN THE

Supreme Court of the United States

OCTOBER TERM, 1996

PAOLO GUCCI DESIGN STUDIO, LTD.,

Petitioner,

vs.

FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, et al., GUCCIO GUCCI, S.P.A. and GUCCI AMERICA, INC.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

STATEMENT

Respondent-Frank G. Sinatra (the "Trustee"), as Chapter 11 Trustee of the substantively consolidated estate (the "Estate") of *Paolo Gucci, et al.*, submits this brief in opposition to the petition for a writ of certiorari (the "Petition") of Paolo Gucci Design Studio, Ltd. ("PGDS"), which seeks review of the Orders of the United States Court of Appeals for the Second Circuit, dated December 4, December 13 and December 24, 1996 (collectively the "Orders"). Petitioner's Appendix ("Pet. App.") la-17a.

Procedural Background

The Orders affirm an Order of the United States District Court for the Southern District of New York (Griesa, C.J.) which in turn, affirms an Order of the United States Bankruptcy Court for the Southern District of New York (Gallet, J.) dated October 15, 1996 (the "Sale Order") (Pet. App. 25a-37a).

In pertinent part, the Sale Order:

> (a) permits the Trustee, pursuant to §363(b), (f) and (m) of the Code to sell to Guccio Gucci, S.p.A. and Gucci America, Inc. (collectively "GG") certain property of the Estate (the "Assets") consisting generally of all Paolo Gucci trademarks, right to commercially exploit the Paolo Gucci name, and all related property and rights. Included among the Assets are postpetition product designs of Paolo Gucci ("Paolo") using the Paolo Gucci name (the "Postpetition Designs");
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> (b) finds the Assets are property of the Estate under Code §541; and
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> (c) finds that PGDS does not own, or have the right to use or license any of the Assets.

Upon entry of the Sale Order, the bankruptcy court denied the stay application of PGDS, but stayed the sale for 48 hours to afford PGDS the opportunity to seek a stay from the district court. The district court, concerned that the failure to grant the stay would moot the appeal, granted PGDS' stay application and expedited the appeal. After a comprehensive two-day hearing, the district court affirmed the Sale Order and denied any further stay, finding no likelihood of success on appeal, and that the Estate had no alternative but to proceed with the sale. Transcript ("Tr.") 11/21/96, p. 125

Following the affirmance by the district court, the Trustee and GG consummated the sale. The Assets were irrevocably conveyed and the portion of the purchase price due at closing

was fully and irrevocably paid prior to 5:45 p.m. on November 22, 1996 -- the approximate time at which the court of appeals issued an interim *ex parte* stay (which was dissolved shortly thereafter).

Factual Background

Paolo was a member of the Gucci family which is well-known for its connection with the Gucci trademark and products. Paolo worked for GG for some years as a designer. Thereafter, he established his own licensing business by entering into licensing agreements with various entities.

Under these agreements, the licensees or sublicensees were permitted to use the marks and designs of Paolo Gucci. The licenses generally provided that the designs and ornamental appearance for the "Licensed Products" were the "sole property of Licensor." Under the agreements, Paolo would be retained as the respective licensee's designer, would make public appearances and provide design and consultation services. Affidavit of Scott H. Wyner, sworn to August 14, 1996, pp. 2-7.

GG opposed Paolo's use of the Gucci name by commencing trademark infringement litigation throughout the world, obtaining favorable results eliminating or limiting Paolo's ability to use the Gucci name in numerous countries.

In litigation commenced by Paolo in the United States entitled *Paolo Gucci v. Gucci Shops, Inc.*, the district court ruled that Paolo could describe and merchandise products designed or selected by him as products "designed by Paolo Gucci", subject to certain restrictions. *See*, Final Judgment dated July 13, 1988, as clarified by Order dated January 12, 1994 (collectively, the "Final Judgment"). (Pet. App. 52a-55a and Respondent's Appendix ("Res. App.") A-1–A-3.) The 1994 clarifying order makes clear that Paolo could license to other entities the right to commercially exploit the use of his name

under the conditions set forth in the Final Judgment, and that such entities could sublicense the rights.[1]

On February 8, 1994, Paolo filed a voluntary petition for relief under Chapter 11 of the Code with the bankruptcy court. Following a motion by the United States Trustee, the bankruptcy court approved the appointment of the Trustee to serve as a Chapter 11 trustee for Paolo and certain other debtors related to Paolo.

Paolo sought to reorganize his licensing business through his Chapter 11 case. The Local Bankruptcy Rule 52 Affidavit, which accompanied his petition, states as follows:

> [Paolo] is an individual whose principal business consists of the licensing of trademarks for use in various commercial ventures and design work in conjunction therewith.

On his Schedules of Assets and Liabilities filed pursuant to Fed. R. Bankr. P. 1007(b), in response to Question 21 of Schedule B, Paolo lists as an asset his interest in certain trademarks in the United States and Korea which he valued at $5,000,000.

PGDS claimed interest in the Postpetition Designs arises solely from its involvement in a proposed settlement between the Estate and Paolo which was never approved by the bankruptcy court. The settlement agreement is dated October 3, 1995, and consisted of a main agreement, initially executed in July 1995 among the Trustee, Paolo and others, and an

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[1] The Petition mischaracterizes the Final Judgment by (i) ignoring the 1994 clarifying order (including omitting it from the Appendix), (ii) ignoring the January 23, 1996 conference held before District Judge Conner discussed below and (iii) stating, at p. 5, that the Final Judgment prohibited the "use in an independent business operation, the name 'Paolo Gucci'...". If PGDS' interpretation of the Final Judgment were correct, it could have not obtained any of the rights it claims to have obtained from Paolo.

October 3, 1995 amendment (collectively, the "Agreement") among the same parties save for the addition of PGDS.[2]

The Agreement provided that Paolo, after the July 1995 execution of the main agreement, but prior to October 15, 1996, would identify a master licensee (referred to as "Newco") to which he would "license all of his rights under the ... Final Judgment." Agreement §I.A.4, p. 7. The Agreement also required that the contemplated master license "comply with, and agree to be bound by, this Agreement in all respects ... and not contradict this Agreement or any term or provision thereof." Agreement §I.A.4.(a), p. 8. It further provided that it is "not ... effective unless and until ... signing of the [bankruptcy court] Order [approving it]", Agreement §4.H., p. 46. The commencement of licensing activities through "Newco" is permitted only upon "signing of the Order...". Agreement §I.B.1.(d), p. 11. Finally, only upon signing of the contemplated bankruptcy court approval order would the Estate convey to Paolo (subject to certain restrictions) "all of the Estate's rights under the Final Judgment ...". Agreement §II.B., p.39.

Paolo thereafter selected PGDS as his master licensee, and on or about October 3, 1995 the amendment was executed. It identified PGDS as "Newco" and was executed by PGDS -- thereby rendering PGDS a party to the Agreement. Simultaneously, with the execution of the amendment, and as contemplated by the Agreement, Paolo entered into a master license with PGDS (the "PGDS License"). The PGDS License purported to license to PGDS the right to merchandise products bearing the Paolo Gucci name in accordance with the Final Judgment.[3] The PGDS License provided, among

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[2] Upon execution of the amendment, the July 1995 main agreement and the amendment were both deemed executed as of October 3, 1995. In December 1995, the Trustee made a motion to the bankruptcy court to approve the Agreement but, as a result of the auction, discussed below, the motion was never granted.

[3] The Petition, at p. 6, incorrectly states that the PGDS License is a license of the Postpetition Designs.

other things, that "The artistic and creative designs ... shall be the sole property of Paolo Gucci ..." PGDS License, ¶3.4. As mentioned above, PGDS also executed the amendment, thereby binding itself to all terms of the Agreement:

> All obligations imposed upon 'Newco' under the Agreement shall apply to [PGDS], and [PGDS] assumes, and agrees to be bound by, all such obligations in all respects.

Amendment to Agreement, §7, p.4.

PGDS thereafter entered into a series of sublicenses. However, since under the Agreement PGDS had not yet obtained any licensing rights and was not permitted to begin licensing activities, each such sublicense was contingent upon and subject to bankruptcy court approval of the Agreement. *See, e.g.* Addendum to Agreement between PGDS and A.V. by Versace, Inc., dated February 1, 1996.

The Agreement (¶ II. C, pp. 39-40) also required that, in connection with the contemplated bankruptcy court approval thereof, the Trustee would obtain the "full settlement of all ... claims of Jennifer Gucci against [Paolo], including stipulations or order(s) against [Paolo] ...". This was necessary to implementation of the Agreement since one such order is the December 29, 1993 Order entered by the Supreme Court, State of New York, County of New York (Gangel-Jacob, J.) in the *Jennifer Gucci v. Paolo Gucci* matrimonial action. Under this Order, at p. 15, Paolo was enjoined and restrained from "transferring, selling ... or otherwise disposing of any and all ... property or other assets ...". That Order has been in full force and effect at all relevant times.

On October 12, 1995, Paolo died. On December 5, 1995, his widow, Jennifer Gucci, was appointed as personal representative of Paolo's decedent estate by Order of the High Court of Justice, Principal Registry of Family Division, London, England.

After Paolo's death, a pre-motion conference was requested by GG to obtain a ruling from District Judge Conner that, due

to the death of Paolo, the U.S. licensing rights under the Final Judgment to use the Paolo designation were eliminated. At the conference, held on January 23, 1996, Judge Connor stated, however, that Paolo's designs could continue to be exploited notwithstanding the death of Paolo, as long as they complied with the Final Judgment.

By motion dated March 27, 1996 (the "Committee Motion"), the Official Committee of Unsecured Creditors (the "Committee") made a motion to approve an offer of GG (the "GG Offer") to purchase the Assets for $3,000,000 on the terms and conditions set forth in the GG Offer. Those conditions included a finding that the Assets, including the Postpetition Designs, were property of the Estate under Code §541.

By motions dated May 3, 1996 and September 3, 1996, PGDS sought entry of an order of the bankruptcy court that the Postpetition Designs are not property of the Estate (the "PGDS Motion"). The PGDS Motion does not allege that the issue of ownership of the Postpetition Designs is "non-core", nor did PGDS seek withdrawal of the automatic reference to the bankruptcy court or to limit the role of the bankruptcy court to making findings of fact and conclusions of law for review by the district court. By decision dated October 9, 1996 (the "Designs Decision"), the bankruptcy court denied the PGDS Motion.[4] In denying the PGDS Motion, the bankruptcy court found that the Estate owned, and could sell the Postpetition Designs, finding:

> Paolo's ability to create designs bearing his name and trademark is so inexorably tied to the licensing business that it is impossible to separate the two. They are in fact one in the same, and each cannot exist without the other.

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[4] The Designs Decision, at footnote 1, Pet. App. 39a, finds that the matter "is a core matter 28 U.S.C. §157(b)(2)(A)". This finding was not appealed by PGDS.

> I agree with the Trustee's characterization that if this were a situation where Paolo designed for another company, and those designs were to be used in conjunction with a trademark, other than "Paolo Gucci," then Paolo probably would have been entitled to retain those post-petition designs, and the revenue flowing therefrom. However, those are not the facts before me. Paolo, and his purported successor in interest, PGDS, cannot be allowed to continue the business of licensing Paolo's name and trademark. That business, which the Trustee is selling, is the exact business for which Paolo originally sought bankruptcy protection. (Pet. App. 51a)

The bankruptcy court scheduled an auction to consider the GG Offer, the offer embodied in the Agreement and any other offers for the Assets. PGDS, together with a group of entities, bid at the auction. (Tr. 8/2/96, pp. 41-43).

GG improved the GG Offer at the auction held on August 2, 1997, by offering to buy the Assets for an aggregate amount of $3,650,000, of which $2,650,000 would be (and now has been) paid at the closing of the GG Offer (the "Closing Funds") and the remaining $1,000,000 to be paid if and when post-closing conditions were satisfied. PGDS, made a bid but repudiated it immediately after the close of bidding, and failed to post the downpayment required by the bankruptcy court. (Tr. 8/9/96, pp. 6-9).

The Trustee recommended the GG Offer as the highest and best bid, which was accepted by the bankruptcy court. To proceed with the closing of the GG Offer, the Trustee formally moved under Sections 363(b), (f) and (m) of the Code for entry of the Sale Order (the "Trustee Motion").

Upon entry of the Sale Order, PGDS, among others, immediately moved for a stay pending appeal. The bankruptcy court denied the motion:

> I don't believe that ultimately PGDS ... [has] standing to appeal in this matter. I think that's a

> very important issue. I think that [it comes] here primarily, if not entirely, as [an] unsuccessful [bidder] ...
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> * * *
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> [I]f PGDS is doing $80 million in business, this estate is going to do much better than anybody thought because they are going to be paying a lot of money for it, for all the business that they've already done *because it is clear to me from these documents that they don't have a right to do any of it, any of it whatsoever, nor does PGDS have a right in this case to appeal. You don't get standing to appeal by converting something that the Debtor owns.* That doesn't give you standing to appeal so they are -- it works in the other direction. They move against you. (emphasis added)

Tr. 10/15/96, pp 180-181.

Among the Assets are the Paolo Gucci trademarks in Korea (the "Korean Marks"). At the auction, Crown Corporation ("Crown"), a Korean company bid $1,700,000 to purchase the Korean Marks. To support its bid, Crown posted the sum of $900,000, $170,000 of which was delivered to the Trustee as a downpayment and $730,000 of which was delivered to its counsel in New York. Those funds have since been returned to Crown in Korea.

At the time of the auction, an appeal was pending before the Seoul High Court in Korea seeking to reverse an injunction granted in the court below in favor of GG which prohibits the use by a large Korean sublicensee of the Korean Marks. The president of Crown testified before the bankruptcy court that the effect of an affirmance by the Seoul High Court would be "devastating" to the value of the Korean Marks. Tr. 7/12/96, pp. 106-107. Since the auction, the Seoul High Court has affirmed the lower court decision, effectively destroying, or greatly diminishing, the value of the Korean Marks.

Since the auction through January 31, 1997, the Estate has disbursed the sum of $730,290. Since the Closing Funds constitute most of the cash of the Estate which is not subject to any escrow requirement prohibiting disbursement thereof, most of this money disbursed since the auction consisted of the Closing Funds.

ARGUMENT

I. Having Submitted The Matter To The Core Jurisdiction Of The Bankruptcy Court, PGDS Cannot Now Raise A Marathon-Type Objection

In order to cure the jurisdictional issues identified by this Court in *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 103 S.Ct. 2858, 73 L.Ed.2d (1982) *("Marathon")*, Congress, in 1986, amended U.S.C. Title 28. Under these amendments, 28 U.S.C. §1334(a) and (b) confers jurisdiction in the federal courts over bankruptcy cases, and over proceedings arising under the Code or arising in or related to bankruptcy cases. 28 U.S.C. §1334(e) confers exclusive jurisdiction upon the district court where the bankruptcy case is commenced over "all the property, wherever located, of the debtor as of the commencement of such case, and of property of the Estate." 28 U.S.C. §157(a) permits the district court to refer all bankruptcy cases, and proceedings arising under, arising in or related to bankruptcy cases, to the bankruptcy court. (The District Court for the Southern District of New York has done so.) 28 U.S.C. §157(b) permits the bankruptcy judges to hear and determine all "core" proceedings arising under the Code or arising in bankruptcy cases. Furthermore, under subsection (c), the bankruptcy judge "may hear a proceeding that is not a core proceeding but that is otherwise related to a case under title 11". In such a proceeding the bankruptcy judge shall submit proposed findings of fact and conclusions of law to the district court for final determination.

Section 157(b)(3) requires the bankruptcy court to decide on its own motion "or on a timely motion of a party" whether or not a proceeding is core. Finally, under 28 U.S.C. §157(d),

the district court, on its own motion "or on timely motion of any party" may withdraw the automatic reference to the bankruptcy court of all or any part of a bankruptcy case or proceeding.[5]

In *Commodities Futures Trading Commission v. Schor*, 478 U.S. 833, 106 S.Ct. 3245, 92 L.Ed. 2d 675 (1986), certain individuals filed reparations complaints with the CFTC. In response, the broker-defendant filed a counterclaim to recover debit balances. After losing before the CFTC, the appellant-customers argued, among other things, that the CFTC's assumption of jurisdiction over the counterclaims violated their rights under Article III of the Constitution. This argument was based, in part, upon this Court's decision in *Marathon*. In *CFTC v. Schor*, this Court, following a discussion of the judicial power embodied in Article III, stated as follows:

> Our precedents also demonstrate, however, that Article III does not confer on litigants an absolute right to plenary consideration of every nature of claim by an Article III court. (citations omitted) Moreover, as a personal right, Article III's guarantee of an impartial and independent federal adjudication is subject to waiver, just as are other personal constitutional rights that dictate the procedures by which civil and criminal matters must be tried. (citations omitted). Indeed, the relevance of concepts of waiver to Article III challenges is demonstrated by our decision in *Northern Pipeline*, in which the absence of consent to an initial adjudication before a non-Article III tribunal was relied on as a significant factor in determining that Article III forbade such adjudication. (citations omitted)
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> In the instant cases, Schor indisputedly waived any right he may have possessed to the full trial of

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[5] The full text of 28 U.S.C. §157 and 28 U.S.C. §1334 are set forth herein at Appendix B, pp. B-1–B-5.

> Conti's counterclaim before an Article III court. Schor expressly demanded that Conti proceed on its counterclaim in the reparations proceeding rather than before the District Court, see App. 13, 19, and was content to have the entire dispute settled in the forum he had selected until the ALJ ruled against him on all counts; it was only after the ALJ rendered a decision to which he objected that Schor raised any challenge to the CFTC's consideration of Conti's counterclaim.
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> Even were there no evidence of an express waiver here, Schor's election to forgo his right to proceed in state or federal court on his claim and his decision to seek relief instead in a CFTC reparations proceeding constituted an effective waiver.

478 U.S. at 848-49, 106 S.Ct. at 3255-3256. *See, also, Matter of Texas General Petroleum Corp.*, 52 F.3d 1330, 1337 (5th Cir. 1995).

In *General Petroleum*, the Fifth Circuit held as follows:

> A party may waive its constitutional right to an Article III court. *Commodity Futures Trading Commission v. Schor*, 478 U.S. 833, 848-50, 106 S.Ct. 3245, 3255-56, 92 L.Ed. 2d 675 (1986) ; *Pacemaker Diagnostic Clinic of America v. Instromedix. Inc.*, 725 F.2d 537, 542-43 (9th Cir.) (en banc), *cert. denied*, 469 U.S. 824, 105 S.Ct. 100, 83 L.Ed.2d 45 (1984). We note that the bankruptcy court has statutory authority to enter judgment in non-core matters with the consent of the parties. 28 U.S.C. §157(c)(2); *cf.*, 28 U.S.C. §636(c) (allowing magistrates to enter judgment in bench or jury trials with the consent of the parties).
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> A party who fails to object to a bankruptcy court's assumption of core jurisdiction consents to that court's entry of final judgment. *Abramowitz v. Palmer*, 999 F.2d 1274, 1279-80 (8th Cir. 1993); *In*

> *re G.S.F. Corp.*, 938 F.2d 1467-77 (1st Cir. 1991); *In re Mann*, 907 F.2d 923, 926 (9th Cir. 1990); *In re Men's Sportswear*, 834 F.2d 1134, 113738 (2d Cir. 1987); *DuVoisin v. Forster (In re Southern Indus. Banking Corp.)*, 809 F.2d 329, 331 (6th Cir. 1987). McFarland did not object to bankruptcy court jurisdiction before or during the hearing on the standing issue. By failing to object in the bankruptcy court, McFarland consented impliedly to the court's assumption of core jurisdiction.");

See, also, In re S.G. Phillips Constructors, Inc, 45 F.3d 702 (2d Cir. 1995); *Pipkin v. JVM Operating, L.C.*, 197 B.R. 47, 55 (E.D. Tex. 1996). *See also, Langenkamp v. Culp*, 498 U.S. 42, 112 S.Ct. 330, 111 L.Ed.2d. 343 (1990) *per curiam*; *Katchen v. Landy*, 382 U.S. 323, 86 S.Ct. 467, 15 L.Ed.391, (1966).

The instant case falls squarely within the precedents cited above and, accordingly, there is no jurisdictional infirmity.

In the PGDS Motion, PGDS voluntarily submitted to the bankruptcy court the issue of its claimed interest in the Postpetition Designs for final determination by the bankruptcy court. Opposition papers were filed, the matter was fully litigated, and finally decided by the bankruptcy court. As noted above, the bankruptcy court's decision contains a specific finding that the matter is core -- a finding which has never been appealed by PGDS.

Furthermore, in its opposition papers to the Committee Motion and the Trustee Motion, PGDS never alleged that the issue of PGDS' alleged interest in the Postpetition Designs was noncore. Nor did PGDS ever request that the district court withdraw the automatic reference of this matter to the bankruptcy court under the applicable provisions of 28 U.S.C. §157(d).[6]

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[6] Only in a belated submission to the bankruptcy court in September 1996 did PGDS suggest that the bankruptcy court had no jurisdiction over the

(Footnote continued)

Accordingly, the court clearly had jurisdiction over the issue, and PGDS consented to the final adjudication of the claim. For example, in *In re Men's Sportswear, Inc.*, 834 F.2d 1134, 1137-38 (2d Cir. 1987) a panel of the Second Circuit commented:

> ... even if the instant action was not a "core" proceeding, 28 U.S.C. §157(c)(2) empowers the bankruptcy court to enter final judgment in a "non-core" but "related" matter, provided both parties consent .... Sasson's failure to object to ... "core jurisdiction" at any point in these extensive proceedings before the bankruptcy court ... constitutes consent to the final adjudication of this controversy before the bankruptcy court.

See also, DuVoisin v. Foster, 809 F.2d 329, 331 (8th Cir. 1987).

In light of the foregoing and pursuant to *CFTC v. Schor* and the other precedents cited above, PGDS has consented to the exercise of jurisdiction by the bankruptcy court over this controversy and has waived any contention that the matter was non-core. It selected the manner in which it wished the matter resolved, and was accorded all of the attendant procedural rights, including full review of all issues by the district court. Even if the matter were non-core, the bankruptcy court, pursuant to 28 U.S.C. §157(c)(1), could nevertheless hear the matter and make recommendations to the district court. PGDS, however, never even requested that the bankruptcy

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Postpetition Designs. Implicity acknowledging the lack of merit of this position, however, PGDS never withdrew its motion to have the issue determined by the bankruptcy court, moved to have the automatic reference withdrawn, sought a determination pursuant to 28 U.S.C. 157(b)(3) whether the matter was non-core, or even allege that the matter was non-core.

court limit its role to entering proposed findings and conclusions.[7]

II. PGDS Does Not Raise a True Constitutional Challenge to Code §363(m) And, In Any Event, Having Failed To Challenge The Constitutionality Of Code §363(m) Below, PGDS Is Precluded From Raising It For the First Time Before The Supreme Court

The Petition does not claim any inherent constitutional infirmity with respect to §363(m); it only alleges that it was entitled to submit the issue to an Article III court. This, as described above, however, was waived by PDGS. In any event, it received full review by the district court. Furthermore, no "constitutional" challenge to §363(m) was raised below and thus the issue may not be considered by the Supreme Court.

An appellate court may only consider the record as it was before the trial court. *See, e.g. In re Freeman*, 956 F.2d 252, 255 (11th Cir. 1992) (issues not raised in the bankruptcy court may not be raised on appeal); *Brock v. Logan County Sheriff's Dept. of Arkansas*, 3 F.3d 1215 (8th Cir. 1993) (issues raised in plaintiff's "brief in support of complaint" not appearing in complaint before trial court could not be considered for the first time on appeal); *Topalian v. Ehrman*, 954 F.2d 1125 (5th Cir. 1992), *rehearing denied*, 961 F.2d 215, *cert. denied*, 113

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[7] PGDS's entire Marathon argument fails in any event for the reason that the determination of what constitutes property of the estate "arises under" Code §541, and is thus within the core jurisdiction of the bankruptcy courts. *See, In re Becker*, 136 B.R. 113 (Bankr. D.N.J. 1992); 28 U.S.C. §1334(a), (b) and (e); 28 U.S.C. 157(b)(1)(4). *See, e.g., Taubel-Scott-Kitzmiller Company. Inc. v. Fox*, 264 U.S. 426, 430-31, 44 S. Ct. 396, 398, 68 L.Ed. 770, 773 (1924). ("Hence, even if the property is not within the possession of the bankruptcy court, Congress can confer upon it, as upon any other lower federal court, jurisdiction of the controversy, by conferring jurisdiction over the person in whose possession the property is."); *In re Duval County Ranch Co.*, 167 B.R. 848 (Bankr. S.D. Tex. 1996) (whenever there is a dispute as to whether property is property of bankruptcy estate, exclusive jurisdiction is in bankruptcy court.)

S.Ct 82 (1992) (facts not presented at trial cannot be asserted on appeal from summary judgment); *Ballard Medical Products v. Wright*, 821 F.2d 642 (Fed. Cir. 1987). *See also Holly Farms Corp.* v. *N.L.R.B.*, __U.S. __, 116 S.Ct. 1396, 1402, n. 7, 134 L.Ed.2d 593 (1996); *Matsushita Electric Industrial Co. v. Epstein*, __U.S.__, 116 S.Ct. 873, 880 n. 7, 134 L.Ed.2d 6 (1996).

Throughout the extensive litigation before the bankruptcy court regarding PGDS' alleged interest in the Postpetition Designs, PGDS never challenged the constitutionality of Code §363(m). Furthermore, through two fully argued and litigated appeals, including at least three motions for stays pending appeal, PGDS never asserted or claimed that Code §363(m) was "unconstitutional".[8]

III. The Court Of Appeals Did Not Err In Not Imposing A Constructive Trust On The Proceeds Where PGDS Never Requested That A Constructive Trust Be Imposed

Code §363(m) prohibits the appellate court from affecting "the validity of a sale" under §363(b) or (c) of the Code as long as the assets were sold to a purchaser "in good faith" unless the appellant obtained a stay pending appeal. PGDS, in its appeals below, however, sought precisely that which §363(m) prohibits, *i.e.*, the reversal of the sale to GG under §363(b). Consistent with the statute, the court of appeals correctly found that it could not unwind the sale and accordingly limited the scope of the appeal to the issue of whether or not GG was a purchaser "in good faith."

In the Petition, PGDS cites *In re Osborne*, 24 F.3d 1199 (10th Cir. 1994) for the proposition that a constructive trust

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[8] This failure to raise any constitutional challenge prevented the bankruptcy court, the district court and the court of appeals from complying with the requirement of 28 U.S.C. §2403(a), regarding notification to the United States that a challenge to the constitutionality of a federal statute, in this instance, Code §363(m), had been made.

can be imposed upon the proceeds of the sale pursuant to Code §363(b).[9] This argument, however, is unavailing for the reason that PGDS never made any request to the court of appeals, to the district court or to the bankruptcy court that any type of trust be imposed upon the sale proceeds.[10] Having failed to raise this issue below, it cannot be now raised for the first time on appeal.[11]

IV. PGDS Has No Interest In The Postpetition Designs And Accordingly Lacks Standing

The issue of standing "is the threshold question in every federal case, determining the power of the court to entertain the suit." *Warth v. Seldin*, 422 U.S. 490, 498, 95 S.Ct. 2197, 2205, 45 L.Ed.2d 343 (1975). *See also Arizonans for Official English* v. *Arizona*, __U.S.__S.Ct.__, 1997 WL 84990, p. 33 (1997). Code §1109(b) provides that a party in interest may appear and be heard on any issue in the case. This provision, however, does not confer standing in the absence of a legally

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[9] PGDS also cites *In Re Swedeland Development Group, Inc.*, 16 F.3d 552 (3d Cir. 1994), which is an analogous decision involving the mootness rule prohibiting reversal of postpetition loans in the manner set forth in §364(e) of the Code.

[10] Had such a request been made at any level, one could surmise that the court, if it found any merit to the request, might then be called upon to attempt to consider what portion of the proceeds would be allocated to the Postpetition Designs for the purpose of then determining how much of the proceeds should be made subject to this "constructive trust" now posited by PGDS. Indeed one can conjure any number of additional factual and legal issues which may have been implicated had such an argument been proffered by PGDS. All of this conjecture is unnecessary, however, since PGDS did not make any such request in any of the courts below.

[11] PGDS attempts to manufacture a "split" among the circuit courts by suggesting that the Second Circuit has taken a different approach from the Third and Tenth Circuits by failing to impose a constructive trust. The obvious flaw in this argument is that, as noted above, PGDS never requested the imposition of a constructive trust. It thus cannot be known how the court of appeals (or the district court or the bankruptcy court) would have treated such a request had it been made. PGDS' speculations do not however, create a "split" among the circuit courts of appeal.

protected interest affected by the bankruptcy proceeding, *In re James Wilson Assoc.*, 965 F.2d 160, 169 (7th Cir. 1992); *In re Caldor, Inc.*, 193 B.R. 182, 186 (Bankr. S.D.N.Y. 1996).

To challenge a sale of property, one must be able to show an interest therein. *In re Phoenix Steel Corp.*, 82 B.R. 334, 335 (Bankr. D. Del. 1987). PGDS claims its interest as a licensee of designs made by Paolo. However, by the terms of the very agreements upon which it relies, PGDS has no such interest. Among terms of the PGDS License and the Agreement -- are: (i) that the master license (*i.e.*, the PGDS License) must comply with and shall not contradict the Agreement in any way, (ii) the Agreement is ineffective until bankruptcy court approval, (iii) only upon such approval will the rights under the Final Judgment to commercially exploit the Paolo Gucci name be conveyed to Paolo, who would then convey them to the master licensee, *i.e.* PGDS and (iv) no licensing business would commence until after court approval.

Given these terms, and the fact that PGDS is a signatory on both the Agreement and the PGDS License, its lack of standing becomes manifest. First, since under the Agreement, only upon court approval could the rights which PGDS now claims be conveyed back to Paolo by the Estate, PGDS has admitted that the Estate owned the rights as of October 3, 1995.[12] Second, those rights would only be conveyed back to Paolo (and then by Paolo to PGDS) upon court approval, which never occurred. Accordingly, PGDS never acquired these rights from Paolo because Paolo never got them back from the

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[12] The essential property which PGDS claims it has licensing rights to is the right under the Final Judgment to affix the Paolo Gucci name to the designs, including the Postpetition Designs. The Postpetition Designs which were sold to GG are only those using the Paolo Gucci name under the Final Judgment. Designs which do not use the Paolo Gucci name were not sold to GG and are not the subject of the Sale Order.

Estate. In fact, Paolo died several days after signing the Agreement.[13]

Third, Paolo could not, under the PGDS License or otherwise, independently convey these rights to PGDS due to his status as a Chapter 11 debtor. As such, bankruptcy court approval would be necessary to convey a long term master license covering essentially all of Paolo's licensing business. *See, e.g.*, Code §363(b). *See also, In re National Reserve Corp.*, 199 B.R. 241 (Bankr. D.Mass. 1996) (debtor had no authority to enter into postpetition premium financing agreement without court approval); *In re Masters. Inc.*, 149 B.R. 289 (E.D.N.Y. 1992) (debtors cannot bind their estates to compromises absent bankruptcy court approval); *In re American Development Corp.*, 95 B.R. 735 (Bankr. C.D. Cal. 1989) (transfer of all assets of corporate debtor not in ordinary course of business and requires court approval.) Moreover, due to the appointment of the Trustee, Paolo was no longer the representative of the Estate (Code §323(a)) and was under an affirmative duty to cooperate with the Trustee (Code §521(3)).

Fourth, PGDS' assertion that it obtained rights directly from Paolo under the PGDS License without considering the pertinent provisions of the Agreement constitutes a direct contradiction of the Agreement to which PGDS is bound.

Even if PGDS had not specifically agreed in writing to be fully bound by the Agreement (which includes an agreement that the PGDS License will fully comply with, and will not contradict in any way, the Agreement), it is well established that where several instruments constitute part of the same transaction, they must be interpreted together.

> In the absence of anything to indicate a contrary intention, instruments executed at the same time, by the same parties, for the same purpose, and in the

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[13] Paolo, too, by signing the Agreement, admitted that these rights resided with the Estate as of October 3, 1995.

> course of the same transaction will read and interpreted together, it being said that they are, in the eye of the law, one instrument.

BWA Corp. v. Alltrans Exp. U.S.A., Inc., 493 N.Y.S.2d 1 (1st Dep't 1985) *citing Nau v. Vulcan Rail & Construction Co.*, 286 N.Y. 188, 36 N.E.2d 106 (1941); *Carvel Corp. v. Rivers Management Group*, 930 F.2d 228 (2nd Cir. 1991) (Contemporaneously executed promissory notes and distributorship agreement were required to be treated as single contract, and thus, corporation could not recover on promissory notes without complying with notice and cure provisions of distributorship agreement, where promissory notes were executed for sole purpose of making payments under distributorship agreement and notice and cure provisions of agreement dealt specifically with consequences of distributor's failure to make timely payments); *See also, Guardsman Lease Plan, Inc, v. Gibraltar Transmission Corp.*, 494 N.Y.S.2d 59, 129 Misc. 2d 887 (1985).

Moreover, even if the writings are executed at different times, contracts should be interpreted together if "the parties assented to all the promises as a whole, so that there would have been no bargain whatever if any promise or set of promises had been stricken." *Commander Oil v. Advance Food Service Equipment*, 991 F.2d 49, 53, (2d Cir. 1993) *citing* 6 Williston, Contracts, §863 at 275 (3rd Ed. 1970) (Asset purchase agreement and lease, which involved purchaser's rental of seller's premises, were properly construed as single agreement, for purpose of establishing purchaser's indemnification obligations where the transactions, though not contemporaneous, were intertwined.) Thus, due to (i) the terms of the Agreement discussed above, and (ii) the fact that Paolo, PGDS and the Estate signed the Agreement, any attempt by Paolo and PGDS to contradict the Agreement in a separate document and thereby diminish or undermine the rights bargained for by the Trustee, is unenforceable against the Trustee.

Finally, to the extent Paolo could have had any interest in the Postpetition Designs, he was enjoined from transferring any such interest (to PGDS or otherwise) by order of the Supreme Court, Justice Gangel-Jacob, described *infra*.

IV. Under General Mootness Principles, The Mootness Finding Of The Court of Appeals Should Not be Reversed

There are two complimentary policies at work in Bankruptcy Code §363(m) and the Code cases generally. The first emphasizes the importance of encouraging finality in bankruptcy sales by protecting good faith purchasers and thereby increasing the value of the assets that are for sale. *In re CGI Industries, Inc.*, 27 F.3d 296, 299 (7th Cir. 1994) *(citing In re Onouli-Kona Land Co.*, 846 F.2d 1170, 1172 [9th Cir. 1988] [the "primary goal of the mootness rule is to.protect the interest of a good faith purchaser ... of the property thereby assuring finality of sale."] [quotation and citation omitted]); *Greylock Glen Corp. v. Community Sav. Bank*, 656 F.2d 1, 4 (1st Cir. 1981); *In re Sax*, 796 F.2d 994, 998 (7th Cir. 1986) (finality increases value).

In addition, bankruptcy involves equitable consideration as well as the requirement of Article III of the Constitution that there be a live case or controversy. *In re Chateauguay Corp.*, 10 F.3d 944, 952 (2d Cir. 1993). Article III requires that "[when] an event occurs while a case is pending on appeal that makes it impossible for the court to grant 'any effectual relief whatever' to a prevailing party, the appeal must be dismissed." *Church of Scientology of California v. U.S.*, 506 US. 9, 113 S. Ct. 447, 449 (1992) (quoting *Mills v. Green*, 159 U.S. 651, 653, 16 S. Ct. 132, 133 [1895]). An appeal is also moot when "even though effective relief could conceivably be fashioned, implementation of that relief would be inequitable." *In re Chateauguay Corp.*, 988 F.2d 322, 325 (2d Cir. 1993) (appeal by committee from order authorizing payment of funds from the estate had to be dismissed as moot where committee failed to obtain stay pending appeal and order had been fully implemented). *See also, In re CGI*

Industries, Inc., supra, at p. 299. ("Once the sale has gone forward, and even if it may be possible to undo the transaction, the Court is forced with the unwelcome prospect of unscrambling an egg [citation omitted]).

Here, it is not only impossible to "unscramble the egg," but to do so would create, manifest and unconscionable injustice upon the Estate and its creditors.

In essence, it is impossible to return to the situation that existed on August 2, 1996, the date of the auction. At that time, for example, Crown had posted $900,000 in the U.S. to bolster its bid for the Korean Marks. Since the auction, however, the $900,000 has been returned to Crown in Korea, and the Seoul High Court has issued a decision which greatly diminishes or destroys the value of the Korean Marks. As a result, at any re-auction resulting from the unwinding of the Closing (which is the relief sought by PGDS), no bid, or only nominal bids, will be proffered for the Korean Marks -- as opposed to the $1.7 million bid by Crown backed up by $900,000 of cash which was, in any event, since been returned to Korea.[14]

Thus, at any re-auction resulting from reversal, the Estate would be left with substantially devalued assets. As a result, the Estate can no longer conduct an auction with anything near the success achieved in August 1996, and the no effective remedy can be fashioned. *See Arizonans for Official English* v. *Arizona*, *supra* at 36.

Furthermore, since the decision of the court of appeals, substantial amounts of the Closing Funds have been disbursed.

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[14] Even if GG bothered to bid an any such re-auction, it would certainly bid far less due to the devaluation of the Korean Marks. The purpose of GG's bid was, in essence, to eliminate the expense and risk of continued infringement litigation. That risk and expense, however, is now essentially gone in Korea.

Thus, although PGDS would have the Court believe that unraveling the transactions of November 21 and 22 constitutes a simply, nonprejudicial restoration of the *status quo ante*, nothing could be further from the truth. Rather, implementation of that relief would be enormously inequitable to the Estate since the equities of creditors would be destroyed due to the drastic diminishment of the value of the Assets since the auction.

CONCLUSION

For the reasons set forth above, it is respectfully requested that the Petition be denied in all respects.

Dated: New York, New York
March 14, 1997

Respectfully submitted,

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APPENDIX

Appendix A

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

----------	x	ORIGINAL
PAOLO GUCCI,	:	83 Civ. 4453
Plaintiff,	:	(WCC)
– against –	:	
GUCCI SHOPS, INC.,	:	ORDER
Defendant.	:	U.S. DISTRICT COURT FILED JAN 10 1994 S.D. OF N.Y.
----------	x	

This matter having come before this Court for hearings on October 16, 1992 and September 24, 1993, the Honorable William C. Conner presiding, at the United States Courthouse, Foley Square, New York, New York and argument having been heard and considered,

IT IS ORDERED THAT:

1. This Court's Final Judgment, issued on July 13, 1988, is hereby clarified and, to the extent necessary, modified, as follows:

(a) The words "GUCCI" or "PAOLO GUCCI" may be used within the Shield Design Logo (attached to this Order as Attachment A) only

(A) as part of the complete phrase "PAOLO DESIGNED BY PAOLO GUCCI" contained within that Shield Design Logo, provided that the first word "PAOLO" is significantly larger and more prominent than any other word in the phrase, or

(B) when the Shield Design Logo is used in immediate proximity to the separately set forth phrase "PAOLO DESIGNED BY PAOLO GUCCI" and (i) the first "PAOLO" within that separately set forth phrase is significantly larger and more prominent than the words "DESIGNED BY PAOLO GUCCI" and (ii) the words "DESIGNED BY PAOLO GUCCI" are all in the same typestyle, color and size (as in Attachment C to this Order);

(b) The words "GUCCI" or "PAOLO GUCCI" may not be used within the Shield Design Logo except as provided in subparagraph (a) above;

(c) Whenever the phrase "PAOLO (or other TRADEMARK) DESIGNED BY PAOLO GUCCI" appears on a product or on a label affixed to a product, THE WORD "PAOLO" (or other TRADEMARK) must be significantly larger and more prominent than the words "DESIGNED BY PAOLO GUCCI" and the words "DESIGNED BY PAOLO GUCCI" must all appear in the same typestyle, color and size.

2. This Court's Final Judgment, dated July 13, 1988, is hereby clarified to reflect that paragraph 14 of the final Judgment shall not be construed to prohibit plaintiff, Mr. Paolo Gucci, from:

(a) licensing his trademark rights to a corporation which has the right to find sub-licensees for his trademarks and designs; and

(b) permitting said corporation to grant said sublicensees the right to use the phrases "Designed By Paolo Gucci" and/or "Selected By Paolo Gucci" in accordance with the Final Judgment;

PROVIDED ABSOLUTELY, HOWEVER, THAT

All designs indicated as being "Designed By Paolo Gucci" are, in fact, designed by Mr. Paolo Gucci, and all designs indicated as being "Selected By Paolo Gucci" are, in fact, selected by Mr. Paolo Gucci.

3. A copy of this Order shall be provided by Paolo Gucci to all persons whom he or any other person has authorized, may authorize or intend to authorize to use the name "PAOLO GUCCI," or to exercise any of Paolo Gucci's other rights under the Final Judgment, in the United States of America.

4. Except as modified by this Order, the Final Judgment shall remain in full force and effect.

5. This Court retains jurisdiction over the parties to this action for the purposes of enforcement of the Final Judgment and this Order.

/s/ William C. Conner
Sr. United States District Judge

Dated: New York, New York
January 12, 1994

Appendix B

TITLE 28
JUDICIARY AND JUDICIAL PROCEDURE

§ 157. Procedures

(a) Each district court may provide that any or all cases under title 11 and any or all proceedings arising under title 11 or arising in or related to a case under title 11 shall be referred to the bankruptcy judges for the district.

(b)(1) Bankruptcy judges may hear and determine all cases under title 11 and all core proceedings arising under title 11, or arising in a case under title 11, referred under subsection (a) of this section, and may enter appropriate orders and judgments, subject to review under section 158 of this title.

(2) Core proceedings include, but are not limited to —

(A) matters concerning the administration of the estate,

(B) allowance or disallowance of claims against the estate or exemptions from property of the estate, and estimation of claims or interests for the purposes of confirming a plan under chapter 11, 12, or 13 of title 11 but not the liquidation or estimation of contingent or unliquidated personal injury tort or wrongful death claims against the estate for purposes of distribution in a case under title 11;

(C) counterclaims by the estate against persons filing claims against the estate;

(D) orders in respect to obtaining credit;

(E) orders to turn over property of the estate;

(F) proceedings to determine, avoid, or recover preferences;

(G) motions to terminate, annul, or modify the automatic stay;

(H) proceedings to determine, avoid, or recover fraudulent conveyances;

(I) determinations as to the dischargeability of particular debts;

(J) objections to discharges;

(K) determinations of the validity, extent, or priority of liens;

(L) confirmations of plans;

(M) orders approving the use or lease of property, including the use of cash collateral;

(N) orders approving the sale of property other than property resulting from claims brought by the estate against persons who have not filed claims against the estate; and

(O) other proceedings affecting the liquidation of the assets of the estate or the adjustment of the debtor-creditor or the equity security holder relationship, except personal injury tort or wrongful death claims.

(3) The bankruptcy judge shall determine, on the judge's own motion or on timely motion of a party, whether a proceeding is a core proceeding under this subsection or is a proceeding that is otherwise related to a case under title 11. A determination that a proceeding is not a core proceeding shall not be made solely on the basis that its resolution may be affected by State law.

(4) Non-core proceedings under section 157(b)(2)(B) of title 28, United States Code, shall not be subject to the mandatory abstention provisions of section 1334(c)(2).

(5) The district court shall order that personal injury tort and wrongful death claims shall be tried in the district court in which the bankruptcy case is pending, or in the district court in the district in which the claim arose, as determined by the district court in which the bankruptcy case is pending.

(c)(1) A bankruptcy judge may hear a proceeding that is not a core proceeding but that is otherwise related to a case under title11. In such proceeding, the bankruptcy judge shall submit proposed findings of fact and conclusions of law to the district court, and any final order or judgment shall be entered by the district judge after considering the bankruptcy judge's proposed findings and conclusions and after reviewing de novo those matters to which any party has timely and specifically objected.

(2) Notwithstanding the provisions of paragraph (1) of this subsection, the district court, with the consent of all the parties to the proceeding, may refer a proceeding related to a case under title 11 to a bankruptcy judge to hear and determine and to enter appropriate orders and judgments, subject to review under section 158 of this title.

(d) The district court may withdraw, in whole or in part, any case or proceeding referred under this section, on its own motion or on timely motion of any party, for cause shown. The district court shall, on timely motion of a party, so withdraw a proceeding if the court determines that resolution of the proceeding requires consideration of both title 11 and other laws of the United States regulating organizations or activities affecting interstate commerce.

(e) If the right to a jury trial applies in a proceeding that may be heard under this section by a bankruptcy judge, the bankruptcy judge may conduct the jury trial if specially designated to exercise such jurisdiction by the district court and with the express consent of all the parties.

§ 1334. Bankruptcy cases and proceedings

(a) Except as provided in subsection (b) of this section, the district courts shall have original and exclusive jurisdiction of all cases under title11.

(b) Notwithstanding any Act of Congress that confers exclusive jurisdiction on a court or courts other than the district courts, the district courts shall have original but not exclusive jurisdiction of all civil proceedings arising under title 11, or arising in or related to cases under title 11.

(c) (1) Nothing in this section prevents a district court in the interest of justice, or in the interest of comity with State courts or respect for State law, from abstaining from hearing a particular proceeding arising under title 11 or arising in or related to a case under title 11.

(2) Upon timely motion of a party in a proceeding based upon a State law claim or State law cause of action, related to a case under title 11 but not arising under title 11 or arising in a case under title 11, with respect to which an action could not have been commenced in a court of the United States absent jurisdiction under this section, the district court shall abstain from hearing such proceeding if an action is commenced, and can be timely adjudicated, in a State forum of appropriate jurisdiction.

(d) Any decision to abstain or not to abstain made under this subsection (other than a decision not to abstain in a proceeding described in subsection (c)(2)) is not reviewable by appeal or otherwise by the court of appeals under section 158(d), 1291, or 1292 of this title or by the Supreme Court of the United States under section 1254 of this title. This subsection shall not be construed to limit the applicability of the stay provided for by section 362 of title 11, United States Code, as such section applies to an action affecting the property of the estate in bankruptcy.

(e) The district court in which a case under title 11 is commenced or is pending shall have exclusive jurisdiction of all of the property, wherever located, of the debtor as of the commencement of such case, and of property of the estate.

(3)

Supreme Court, U.S.
FILED
APR 9 1997
CLERK

No. 96-1283

IN THE
Supreme Court of the United States
OCTOBER TERM, 1996

PAOLO GUCCI DESIGN STUDIO, LTD.,
Petitioner,

v.

FRANK G. SINATRA, as Trustee of the Substantively Consolidated Estates of Paolo Gucci, ET AL., GUCCIO GUCCI, S.p.A. and GUCCI AMERICA, INC.,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

REPLY TO BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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43 pp

TABLE OF CONTENTS

Page

TABLE OF CONTENTS..... i

TABLE OF AUTHORITIES..... iv

STATEMENT..... 1

ARGUMENT..... 2

I. PGDS Has a Clear Property Interest in The Post-Petition Designs of Paolo Gucci..... 2

A. A Binding, Fully Executed and Unconditional Contract Between Paolo Gucci and PGDS Conferred on PGDS the Right to License Paolo Gucci's Post-Petition Designs..... 2

B. Respondent Sinatra's Contention that Paolo Gucci Could Not Enter into a License Agreement with PGDS is Circular..... 4

C. A Supplemental Order of the District Court Does Not Support the Standing Arguments Advanced by Respondent Sinatra..... 5

TABLE OF CONTENTS - Continued

Page

II. PGDS Sought a Review in the Lower Courts of the Issues Presented in the Certiorari Petition..... 5

A. Contrary to the Respondent's Position, PGDS Did Contest the Jurisdiction of the Bankruptcy Court Over Paolo Gucci's Post-Petition Designs..... 6

B. PGDS Is Not Precluded From Raising a Constitutional Issue or Seeking a Constructive Trust Before this Court..... 7

III. Effective Relief Can Still Be Afforded to PGDS..... 9

CONCLUSION..... 10

APPENDICES..... 1a

A. License Agreement Between Paolo Gucci and Paolo Gucci Design Studio, Ltd..... 1a

TABLE OF CONTENTS - Continued

Page

B. Motion Of Paolo Gucci Studio, Ltd For An Order Determining That The Designs Created By Paolo Gucci Subsequent To Commencement Of The Chapter 11 Case Are Not Property Of The Estate..... 15a

C. Excerpt From Memorandum Of Paolo Gucci Design Studio, Ltd. And Licensing By Paolo, Inc. Of Points And Authorities In Support Of Their Motion For Stay Pending Appeal Filed with the United Stated Bankruptcy Court for the Southern District of New York..... 19a

D. Excerpt From Memorandum Of Paolo Gucci Design Studio, Ltd. And Licensing By Paolo, Inc. Of Points And Authorities In Support Of Their Motion For Stay Pending Appeal Filed with the United Stated District Court for the Southern District of New York..... 23a

E. Excerpt From Memorandum Of Paolo Gucci Design Studio, Ltd. And Licensing By Paolo, Inc. Of Points And Authorities In Support Of Their Motion For Stay Pending Appeal Filed with the United Stated Court of Appeals for the Second Circuit..... 25a

TABLE OF AUTHORITIES

STATUTES

Page

28 U.S.C. § 363(m)..... 7

Fed.R.App.P. 27(a)..... 8

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Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

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REPLY TO BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

STATEMENT

On March 14, 1997 Respondent Frank G. Sinatra, the Trustee for the Chapter 11 Estate of Paolo Gucci (Sinatra), filed a brief in opposition to a Petition for a Writ of Certiorari filed by Petitioner Paolo Gucci Design Studio, Ltd. (PGDS). Shortly after receiving that brief, the Court requested the other two respondents in this proceeding, Guccio Gucci, S.p.A. and Gucci America, Inc., to file briefs

stating their opposition, if any, to the writ requested by PGDS. Guccio Gucci and Gucci America declined to do so. Consequently, this reply will address only those issues raised by Respondent Sinatra.

Sinatra's opposition is based on two grounds. First, Sinatra maintains that PGDS does not have a sufficient property interest in Paolo Gucci's post-petition designs to seek certiorari. Secondly, Sinatra claims that PGDS does not have standing to seek certiorari because it failed to raise certain issues in the lower courts. As we demonstrate below, both positions are incorrect. A binding contract between Paolo Gucci and PGDS conferred on PGDS the exclusive right to license and market the post-petition designs of Paolo Gucci. Contrary to the argument advanced by Sinatra, that contract was not subject to the approval of the bankruptcy court; nor was the effectiveness of the contract conditioned upon approval by the bankruptcy court.

With respect to standing issues, PGDS consistently objected to the bankruptcy court's exercise of any jurisdiction over the post-petition designs of Paolo Gucci or PGDS' right to license those designs. The constitutional issue which PGDS seeks to bring before this Court was also raised to the extent permitted by the lower courts.

ARGUMENT

I. PGDS Has a Clear Property Interest in The Post-Petition Designs of Paolo Gucci.

A. A Binding, Fully Executed and Unconditional Contract Between Paolo Gucci and PGDS Conferred on PGDS the

Right to License Paolo Gucci's Post-Petition Designs.

In his opposition brief, Respondent Sinatra states that the contractual right of PGDS to license the post-petition designs of Paolo Gucci was subject to the approval of the bankruptcy court and that approval was never obtained. Sinatra's position is plainly incorrect.

We have re-printed in Appendix A the relevant portions of the 18-page agreement between Paolo Gucci and PGDS. An examination of the contract indicates that it was designed to become effective upon execution by the two parties and was in no way subject to bankruptcy court approval. The agreement states that:

> PAOLO GUCCI hereby grants to Licensor, [PGDS] upon the terms and conditions of this Agreement, the exclusive rights to use the Licensed Name [the marks associated with Paolo Gucci] throughout the world on and in connection with the manufacture, promotion, merchandising, distribution and sale of Products which have been designed by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD.[1]

PGDS' exclusive right to use and license Paolo Gucci's post-petition designs is unqualified by any term of the agreement; it is surely not conditioned upon bankruptcy court approval. None of the recitals in Paragraph 1 of the agreement refers to the bankruptcy court;[2] none of the

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[1] Appendix A, ¶ 4.1 at 6a.
[2] *Id.* at 1a-2a.

definitions in paragraph 2[3] refers to the bankruptcy court and the obligations of Paolo Gucci as stated in paragraph 3[4] and of PGDS in paragraph 4[5] in no way refer to the bankruptcy court.

The only reference to the bankruptcy estate in the entire agreement occurs in paragraph 6. In paragraph 6.1, PGDS agreed to pay Paolo Gucci, personally, 4% of the gross sales of the "Licensed Products."[6] However, *in the event* the bankruptcy court approves a "Global Settlement," then the bankruptcy estate would be entitled to a 3% royalty and Paolo Gucci would be entitled to a 1% royalty.[7] It is clear from the context of the agreement that if the bankruptcy court did not approve the Global Settlement, then Paolo Gucci would have been entitled to the entire royalty discussed in paragraph 6. As stated above, the only parties to this 18-page agreement were PGDS and Paolo Gucci (not the Trustee of Paolo Gucci's bankruptcy estate). It is clear that the agreement was intended to stand as a binding commitment of both parties regardless of whether the bankruptcy court approved any Global Settlement.

B. Respondent Sinatra's Contention that Paolo Gucci Could Not Enter into a License Agreement with PGDS is Circular

Sinatra further contends that even if PGDS did acquire property rights as a result of its contract with Paolo Gucci, Paolo Gucci did not have the right to execute that

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[3] *Id.* at 2a-4a.
[4] *Id.* at 4a-5a.
[5] *Id.* at 6a-8a.
[6] *Id.* at 14a.
[7] *Id.*

contract without the approval of the bankruptcy court. However, this argument is circular. PGDS has consistently maintained that the bankruptcy court did not have any jurisdiction over the post-petition designs of Paolo Gucci. Sinatra disagrees. However, the dispute as to whether the bankruptcy court had jurisdiction over all of Paolo Gucci's creative activities, including those conducted subsequent to the date of the bankruptcy petition, is the ultimate issue in this litigation. If, as PGDS maintains, the bankruptcy court had no jurisdiction over Paolo Gucci's post-petition designs, then Paolo Gucci had every right to enter into a master license agreement with PGDS. Surely PGDS has standing to litigate that issue.

C. A Supplemental Order of the District Court Does Not Support the Standing Arguments Advanced by Respondent Sinatra.

Respondent Sinatra also maintains that an order entered by Judge William C. Conner of the District Court affects the arguments made by PGDS. We are familiar with that order but fail to understand how it supports Sinatra's position. Judge Conner's Supplemental Order affirms that Paolo Gucci could pursue the very course of conduct he undertook with PGDS: enter into a master license agreement with PGDS under which PGDS would in turn enter into sublicense agreements to manufacture and sell Paolo Gucci's creative products.[8]

II. PGDS Sought a Review in the Lower Courts of the Issues Presented in the Certiorari Petition

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[8] Brief in Opposition, at A-2, ¶ 2.

A. Contrary to the Respondent's Position, PGDS Did Contest the Jurisdiction of the Bankruptcy Court Over Paolo Gucci's Post-Petition Designs

According to Respondent Sinatra, PGDS submitted to the core-jurisdiction of the bankruptcy court rather than raising a *Marathon*-type objection. However, the record demonstrates that the contrary is true.

Clearly the bankruptcy court had core jurisdiction over the transferable property which Paolo Gucci possessed as of the date on which he filed a bankruptcy petition. It is also clear that the bankruptcy court purported to sell certain property at auctions held in May 1996 and August 1996. However, what was unclear on the dates of the auctions was the particular property that the bankruptcy court was purporting to sell.

PGDS attempted to clarify the issue on May 3, 1996 when it filed a motion with the bankruptcy court which pointed out that the bankruptcy court did not have jurisdiction to sell post-petition property. The Motion stated that "the designs that the Debtor created after the Petition Date are not property of the estate and therefore cannot be transferred by the Trustee."[9] PGDS could not have raised a constitutional issue at that point or have asked the District Court to remove the reference because at that time, the bankruptcy court was not purporting to exercise jurisdiction over Paolo Gucci's post-petition designs.

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[9] Appendix B, ¶ 8 at 17a.

It was not until October 15, 1996, when the bankruptcy court *simultaneously* denied the PGDS motion and issued an order selling post-petition property that a *Marathon*-type argument could have been properly raised.

In fact, on October 15, 1996 PGDS did so. It sought an immediate stay of the bankruptcy court order on the grounds that it was *ultra vires* since the bankruptcy court had no jurisdiction over post-petition designs.[10] Those arguments were preserved and repeated in briefs which PGDS subsequently filed with the District Court[11] and the Court of Appeals.[12]

B. PGDS Is Not Precluded From Raising a Constitutional Issue or Seeking a Constructive Trust Before this Court.

Sinatra also claims that PGDS failed to raise in the lower courts the constitutional issue for which it now seeks certiorari. Sinatra further contends that PGDS failed to seek a constructive trust before the Court of Appeals. According to Sinatra, PGDS is now precluded from doing so.

Sinatra's position is incorrect. PGDS maintains that Section 363(m) of the Bankruptcy Code is contrary to the Constitution to the extent that it prevents PGDS from appealing the seizure and sale of its property to Article III courts. PGDS could only have raised that issue at the point at which it was threatened with the deprivation of those constitutional rights. At the point at which that threat was

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[10] Appendix C, at 19a.
[11] Appendix D, at 23a.
[12] Appendix E, at 25a.

presented, PGDS did in fact raise the very constitutional issue it is seeking to bring before this court.

The record of the proceedings before the lower courts indicates that a stay of the bankruptcy court order was granted on two occasions – by the District Court on October 16, 1996 and by a single judge of the Court of Appeals on November 22, 1996. Since the bankruptcy court order was stayed on both occasions pending review by an Article III court, the constitutional issue could not have been raised at that time. PGDS did, however, attempt to raise the constitutional issue before the Court of Appeals later in the month of December, 1996 when it became ripe for it to do so.

The single judge of the Court of Appeals who issued the stay directed the parties to seek any further stay from a three-judge panel in a hearing scheduled for December 3, 1996. In the meantime, the defendants had filed a motion to dismiss the appeal on the grounds that it was moot. Under Fed. R. App. P. 27(a), PGDS' response to the motion to dismiss the appeal was due on December 6, 1996. In that response, PGDS would have raised the constitutional issue.

However, on December 3, 1996, a panel of the Court of Appeals extended the stay of the single judge and directed the parties to address the issues raised by the motion to dismiss in a brief on the merits of the appeal. That brief was to be filed on December 10, 1996 and could have addressed the constitutional issue. Unfortunately, without waiting for these briefs, the Court of Appeals issued another order *sua sponte* on December 4, 1996 granting the motion to dismiss in part. Under the December 4, 1996 order of the Court of Appeals, the only issue which PGDS was permitted to argue

on the merits of its appeal was whether the Guccio Gucci companies were good faith purchasers.[13] PGDS was therefore precluded from presenting the constitutional issue to the Court of Appeals. Although counsel for PGDS nonetheless attempted to present the constitutional issue at oral argument, the presiding judge ruled the argument out of order because the issues on appeal had been limited only to the good faith purchaser issue.

The constructive trust issue is in the same posture. PGDS would have presented the argument when it was ripe to do so – *viz.*, in response to the defendant's motion to dismiss the PGDS appeal as moot. However the Court of Appeals prevented PGDS from submitting a brief on that issue, and limited it to arguing only the status of Guccio Gucci as a good faith purchaser.

III. Effective Relief Can Still Be Afforded to PGDS.

Respondent Sinatra also argues that all of the funds of the bankruptcy estate have been disbursed and therefore PGDS cannot be afforded any measure of relief. That position too is incorrect.

According to the bankruptcy Trustee's latest accounting, the Guccio Gucci companies still owe the estate approximately $1 million. Moreover, even though disbursements have recently been made from the estate, these funds have been largely transmitted to the lawyers for Respondent Sinatra. Those funds could certainly be recovered.

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[13] *See* Order of the Court of Appeals for the Second Circuit Dated December 4, 1996, Petition Appendix, at 2a.

Furthermore, contrary to Sinatra's argument, there are no eggs that would need to be unscrambled in order to provide effective relief to PGDS. Guccio Gucci has not yet taken possession of, nor destroyed Paolo Gucci's post-petition designs. If PGDS succeeds on the ultimate merits of its appeal, this Court and the lower courts will be able to afford it significant and substantial relief.

CONCLUSION

For the reasons set forth above, Petitioner Paolo Gucci Design Studio, Ltd. respectfully requests the Court to grant its Petition for a Writ of Certiorari.

Respectfully submitted,

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April 9, 1997

Attorneys for Petitioner

APPENDICES

APPENDIX A

AGREEMENT[1]

This AGREEMENT made as of the 3rd day of October, 1995, by and between Paolo Gucci, resident at Normans, East St., Rusper, W. Sussex, RH12 4RD, England, (hereinafter referred to as "Designer"), and Paolo Gucci Design Studio, Ltd., having offices at 1156 East Putnam Avenue, Greenwich, Connecticut 06878 U.S.A. (hereinafter referred to as "Licensee").

1 RECITALS

1.1 PAOLO GUCCI is a fashion designer known professionally throughout the world as a designer of merchandise of high quality as to design, style, coordination, use of materials, workmanship and packaging. PAOLO GUCCI is, and throughout the term of this Agreement shall be retained as a designer and consultant by Licensor.

1.2 Licensor has the right to license others throughout the world to use the designs of PAOLO GUCCI and the Licensed Name with the approval of PAOLO GUCCI, which approval has already been given, in the manner set forth below on and in connection

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[1] This document appears in the record below in the Joint Appendix in the United States Court of Appeals for the Second Circuit, "October 3, 1995 License Agreement between Paolo Gucci and Paolo Gucci Design Studio, Ltd." *In Re: Paolo Gucci,* Nos. 96-5138 (L) and 96-5142 (CON), at A370.

with the manufacture, distribution and sale of Products, pursuant to a Final Judgment dated July 13, 1988, revised _____, and attached hereto as Exhibit A (hereinafter the "Final Judgment").

1.3 Licensor desires to obtain the designs of PAOLO GUCCI and the right to use the Licensed Name on and in connection with the manufacture, distribution and for resale of Licensed Products by Licensor throughout the world, upon the terms and conditions hereinafter provided.

2 DEFINITIONS

2.1 *"Licensed Name"* shall mean the personal name "PAOLO GUCCI" and the initials "PG" in logo form as hereinafter approved in writing by PAOLO GUCCI and as set forth in the Final Judgment attached hereto and any variation on the foregoing to the extent Licensor had any right or interest therein. The Licensed Name shall be used only in connection with the "PAOLO" trademark of PAOLO GUCCI or such other trademark in the phrase "Paolo [or any other trademark] followed by "Designed by Paolo Gucci".

2.2 *"Products"* shall mean and include all consumer categories with the exception of those product categories which could damage the reputation of PAOLO GUCCI, for example pornographic products or products

of war, or pharmaceutical products or any other products of a dangerous nature unless approved by Paolo Gucci.

2.3 *"Licensed Products"* shall mean Products utilizing designs of Paolo Gucci and sold by Licensor utilizing or incorporating the Licensed Name under this Agreement.

2.4 *"Territory"* shall mean worldwide.

2.5 *"Contract Year"* shall mean a twelve (12) month period beginning from the date of the contract or any other mutually agreed date and ending twelve (12) calendar months thereafter.

2.6 *"Gross Sales"* shall mean all sales, including wholesales, of Licensed Products by Licensee, or to the extent not sold by Licensee, by Related Parties to third parties as defined below, without reduction for returns, allowances and discounts or uncollectible accounts, but excluding all separately stated taxes, import and export duties and fees, shipping, packing and handling charges.

2.7 *"Net Sales"* shall mean Gross Sales less returns accepted for credit and standard trade discounts and allowances allowed by Licensee and Related Parties.

2.8 *"Guaranteed Minimum Royalties"* shall mean the minimum royalties provided in Section 6 below.

2.9 *"Related Parties"* shall mean any parent of Licensee which has effective control over Licensee, or any subsidiary of Licensee which Licensee effectively controls, or any other company in which Licensee had effective control.

2.10 *"Licensed Name Judgment"* means the Final Judgment as it may be amended, supplemented or otherwise modified (upon appeal, by settlement, by arbitration and/or other proceeding) in New York State or any other jurisdiction, domestic, foreign or otherwise).

3 DESIGNS

3.1 Paolo Gucci or the design staff of Paolo Gucci Design Studio Ltd shall provide designs which shall be suitable for production by Licensee.

3.2 Paolo Gucci or the design staff of Paolo Gucci Design Studio Ltd shall submit or approve designs during each contract year to Licensor for production by Licensees.

3.3 Paolo Gucci shall consult with Licensor from time to time regarding all matters pertaining to the subject of this Agreement and shall give such publicity assistance as may be reasonably requested consistent with other obligations. Licensor agrees to require PAOLO GUCCI to appear at least twice

during each Contract Year for publicity purposes.

3.3.1 For any scheduled appearance by PAOLO GUCCI, or scheduled travel requested for design consultations required by Licensor, Licensor shall pay and make all first class travel arrangements and first class accommodations and reasonable living expenses for PAOLO GUCCI and one GUEST.

3.3.2 Licensor shall notify Paolo Gucci at least three (3) months in advance of the time, date and place of any public appearance to be scheduled.

3.4 The artistic and creative designs and ornamental appearances of, and the copyrights, industrial designs and design patents on, the Licensed Products shall be the sole property of Paolo Gucci, and Licensor agrees to execute such documents as may be required to effectuate this provision. Paolo Gucci hereby grants a Master License to Licensor during the term of this Agreement to use the properties referred to in this paragraph on or in connection with Licensed Products.

4 LICENSE

4.1 PAOLO GUCCI hereby grants to Licensor, upon the terms and conditions of this Agreement, the exclusive rights to use the Licensed Name throughout the world on and in connection with the manufacture, promotion, merchandising, distribution and sale of Products which have been designed by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD.

4.2 Licensor may use the Licensed Name only on or in connection with the manufacture, promotion, merchandising, distribution and sale of Products worldwide which have been designed by or which incorporate designs approved by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., in accordance with this Agreement. Licensor shall not use the Licensed Name or manufacture or sell Products using or incorporating the Licensed Name except as expressly provided in this Agreement; and in the United States of America and its Territories only, the Licensed Name Judgment; however the rest of the world will not be governed by the said License Name Judgment ruling of the United States of America and its Territories, but will be governed by the rulings of such countries that PAOLO GUCCI trade marks have been applied for and have been approved.

4.3 The Licensed Name shall always be used in the precise manner set forth in the Licensed Name Judgment, where the Licensed Name Judgment applies. Licensor's signature to this Agreement shall constitute Licensor agreement to follow, be bound by and adhere to the terms of the Final Judgment as set forth in Paragraph 14 thereof. In the event of any amendment, supplement or other modification (upon appeal, by settlement, by arbitration and/or other legal or other proceeding [(in New York or any other jurisdiction, domestic or foreign] or otherwise) to or of the Final Judgment, where applicable. PAOLO GUCCI shall give Licensor prompt, written notice thereof in reasonable detail, and notwithstanding anything contained herein to the contrary, Licensor shall not be deemed by PAOLO GUCCI to be acting in violation of any such amendment, supplement, or other modification except with respect to conduct occurring at least fifteen (15) business days after Licensor has received such notice, with exception to all products, materials, designs, promotions, advertising and all other aspects of existing goods for resale or in works, production or inventory.

4.4 Licensor, during the term of this Agreement, shall have the right to utilize the Licensed Name in the phrase "Paolo [or other approved TRADEMARK]" followed by "Designed by Paolo Gucci" on stationery, order forms and invoices and in the advertising, promotion and

marketing of Licensed Products, together with the disclaimer as required under the Licensed Name Judgment where applicable. All such uses of the Licensed Name shall be in good taste as befitting the name, image and reputation of PAOLO GUCCI as a high quality world renowned designer, shall conform to the terms set forth in the Licensed Name Judgment where applicable and shall be subject to the prior, written approval of PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., which approval shall not be unreasonably withheld.

4.5 Licensor shall have the right to produce or have produced by Licensee, Licensed Products anywhere in the world with the exception of those product categories defined in paragraph 2.2 above.

4.6 PAOLO GUCCI reserves all rights to the Licensed Name except as expressly granted herein to Licensor. Nothing contained herein shall be deemed or construed to prohibit PAOLO GUCCI from using or granting the right to use the Licensed Name for any purpose other than those specified in this Agreement.

4.7 Nothing contained herein shall be deemed or construed to prohibit the Licensor from selling products which are not Licensed Products and which do not use the Licensed Name.

5 PRODUCTS CONTROL

5.1 Any license granted by the Licensor shall require that the Licensee shall submit designs, samples or specifications of the materials to be used to the Licensor for approval by PAOLO GUCCI or the design staff of Paolo Gucci Design Studio, Ltd. so as to meet the established design concepts, philosophy and quality standards as directed and approved by Paolo Gucci.

5.2 Licensor shall submit to PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., for approval, samples or specifications of all labels, tags, packaging and other materials intended to be used in connection with Licensed Products or using the Licensed Name, before the same may be used.

5.3 All products bearing the Licensed Name manufactured, sold, distributed or promoted by the Licensee shall conform in all material respects to the samples or specifications approved by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD.

5.4 Licensor shall not use any designs, patterns, stylings or samples furnished by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. for the

Licensor for use in connection with Licensed Products, or approved for such use by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., except as provided in this Agreement, it being the understanding of the parties that the Licensor may use the same solely in connection with Licensed Products.

5.5 PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., shall have the right, with reasonable notice but during normal business hours, to inspect the process of manufacturing the Licensed Products at whatever place or places the same may be conducted and to inspect any premises used by the Licensee in the selling, distribution or promotion of any Products bearing the Licensed Name. To the extent such place or places are not owned or controlled by the Licensee, Licensee shall use reasonable effort to permit PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. to make such inspections.

5.6 Licensor will use and display the Licensed Name only in such forms and manners as are approved by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. All Licensed Products shall bear the Licensed Name in the phrase "Paolo [or other approved TRADEMARK]" followed by "Designed by Paolo Gucci".

5.6.1 In the event Licensor or Licensee uses contractors to manufacture Licensed Products, all labels and tags to be used on Licensed Products will be supplied to such contractor by Licensor or Licensee and Licensor or Licensee shall not permit any contractor to obtain its own labels and/or tags including those supplied to contractors and Licensor or Licensee shall diligently police the use of all such labels and tags in an effort to prevent contractor from selling Licensed Products to any person or entity other than Licensor or Licensee. Licensor or Licensee shall not supply contractors with more labels or tags than they reasonably require and shall periodically retrieve all excess labels and tags. When requested by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., Licensor shall show PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. the procedures used by Licensor or Licensee for controlling the use of labels and tags.

5.7 Licensor shall submit to PAOLO GUCCI or the design staff PAOLO GUCCI DESIGN STUDIO, LTD. before publication, all

advertising and promotional material for approval.

5.8 Except as otherwise expressly provided herein, whenever, under the terms of this Agreement, the approval, consent or permission of PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., shall be required, such approval, consent or permission, shall not be unreasonably withheld or delayed and shall be deemed to have been granted unless within fifteen (15) business days after receipt of written request therefor by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. notifies Licensor in writing of its disapproval. If PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. shall deny approval, it shall state in writing the reasons therefore. After any sample, copy or art work has been approved by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD., Licensor shall not vary or depart therefrom in any material respect without the further approval of PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD.,

5.9 Licensor agrees that all articles will be manufactured, labeled, sold, distributed, promoted and advertised in accordance with

all applicable Federal, State and local, and if appropriate, Foreign laws and regulations.

5.10 During the term of this Agreement and any renewal hereof, Licensor agrees that it will not deliver designs, styles, patterns or samples of any type to any other person or entity, including itself, for use in the sale of Products throughout the world except those designs, stylings, patterns or samples which have not been accepted by Licensor.

5.11 Licensor shall conduct all media interviews with due regard to the high quality of products designed by and reputation of PAOLO GUCCI.

5.12 Licensor shall exercise extreme caution to identify and promote Licensed Products as being designed by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. using the phrase "Paolo [or other approved TRADEMARK]" followed by "Designed by Paolo Gucci" in the manner set forth in the Licensed Named Judgment where applicable and not to relate or associate such products to any other persons or entities that may use the surname GUCCI.

5.13 Any design bearing the stamp and signature of Paolo Gucci or the director of the design staff of Paolo Gucci Design Studio, Ltd. shall be considered an approved and a valid design as long as this contract is in force.

6. COMPENSATION

6.1 In consideration of the rights granted and the services to be performed by PAOLO GUCCI or the design staff of PAOLO GUCCI DESIGN STUDIO, LTD. hereunder, Licensor shall make payments as specified below:

Licensor shall pay to Paolo Gucci during each Contract Year a royalty of four (4%) percent of gross sales of Licensed Products during such Contract Year for the first seven (7) years of this contract, subject to the Guaranteed Minimum Royalty as specified below, royalties shall be paid on a quarterly basis within thirty (30) days of the close of each calendar quarter.

The parties additionally agree that in conjunction with the said Licensor's licensing of the "Designed by Paolo Gucci" trademark that maximum of three (3%) percent of the above licensing royalties are to be paid to the Trustee of the Paolo Gucci bankruptcy estate and applied to the minimum royalty payments referred to below and that the balance, if any, of the total four (4%) percent royalties are to be paid to Paolo Gucci individually, the Licensor shall be the recipient of any additional sums associated therewith.

APPENDIX B

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

Substantively Consolidated
Chapter 11 Case No.
94 B 40614 (JHG)

In re PAOLO GUCCI, et al.,
Debtors.

May 3, 1996

MOTION OF PAOLO GUCCI STUDIO, LTD FOR AN ORDER DETERMINING THAT THE DESIGNS CREATED BY PAOLO GUCCI SUBSEQUENT TO COMMENCEMENT OF THE CHAPTER 11 CASE ARE NOT PROPERTY OF THE ESTATE

TO THE HONORABLE JEFFRY H. GALLET,
UNITED STATES BANKRUPTCY JUDGE:

Paolo Gucci Design Studio, Ltd. ("PGD") by its counsel, Pryor, Cashman, Sherman & Flynn respectfully submits this motion (the "Motion") for the entry of an order

determining that the designs created by Paolo Gucci, the debtor (the "Debtor") subsequent to the commencement of the Chapter 11 case are not property of the estate pursuant to 11 U.S.C. §541. In support of this Motion, PGD represents and alleges as follows:

1. On or about February 8, 1994 (the "Petition Date"), Paolo Gucci, individually, commenced this case by filing a voluntary petition under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York.

2. Pursuant to 11 U.S.C. §1104, Frank G. Sinatra (the "Trustee") was appointed as the Chapter 11 Trustee by the United States Trustee and such appointment was approved by this Court.

3. The United States Trustee appointed a Creditors' Committee in this case pursuant to 11 U.S.C. §1102.

4. Subsequent to the Petition Date, the Debtor entered into a license agreement with PGD with reference to, among other things, various designs created by the Debtor after the Petition Date.

5. As set forth in the Affidavit of Enzo Stancato attached hereto as Exhibit "1", subsequent to the Petition Date the Debtor created a number of artistic designs of various categories.

6. The Trustee has filed a motion which is scheduled to be heard on May 6, 1996 to approve a global settlement which includes PGD funding an amount of $5,000,000 payable over seven (7) years.

7. The Creditors' Committee has filed a motion seeking approval of an offer to acquire Purchased Assets (as defined in that motion) by Guccio Gucci S.p.A. and Gucci America, Inc. (collectively, "GG"). Pursuant to the GG

offer, it appears that GG is requesting that this Court determine that those designs created by the Debtor after the Petition Date are property of the estate and may be conveyed by the Trustee.

8. Pursuant to 11 U.S.C. §541(a)(6), property of the estate does not include "earnings from services performed by an individual debtor after the commencement of the case." The Debtor, during his lifetime created designs of various categories, which he licensed to other entities. This was substantially his only source of income. Therefore, the designs that the Debtor created after the Petition Date are not property of the estate and therefore cannot be transferred by the Trustee.

9. Notice of this Motion has been provided to the Trustee, the Creditors' Committee, GG, Orologi, Trackwise, Jennifer Gucci and the United States Trustee.

10. No prior motion seeking the relief requested herein has been made to this or any other Court.

WHEREFORE, PGD respectfully requests the entry of an order determining that designs created by the Debtor subsequent to the Petition Date are not property of the estate pursuant to 11 U.S.C. §541 and such other and further relief as may seem just and proper.

Dated: New York, New York
May 3, 1996

Respectfully Submitted,

PRYOR, CASHMAN,
SHERMAN & FLYNN
Attorneys for Paolo Gucci
Designs Studio, Ltd.

By: /s/
Harold D. Jones (HDJ-0652)
A Member of the Firm
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APPENDIX C

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

Substantively Consolidated
Chapter 11 Case No.
94 B 40614 (JHG)

In re PAOLO GUCCI, et al.,
Debtors.

October 15, 1996

EXCERPT FROM MEMORANDUM OF PAOLO GUCCI DESIGN STUDIO, LTD. AND LICENSING BY PAOLO, INC. OF POINTS AND AUTHORITIES IN SUPPORT OF THEIR MOTION FOR STAY PENDING APPEAL

II. PGDS and LBP Have Demonstrated A Likelihood of Success on the Merits.

Under applicable principles of law, different rules apply to the designs of Paolo Gucci depending on the date on which he created them.

A. The Post-Petition Designs of Paolo Gucci Are Outside the Bankruptcy Estate; The Bankruptcy Court Does Not Have Subject Matter Jurisdiction Over PGDS' Right to Use and License These Designs

Section 541(a)(6) of the Bankruptcy Code,[15] permits a person to continue to earn a living after he files a bankruptcy petition. It does so by first defining the bankruptcy estate as "all legal or equitable interests of the debtor in property *at the commencement* of the case."[16] The Code then specifically excludes from the estate "earnings from services performed by an individual debtor after the commencement of the case."[17] The effect of section 541(a) is explained in *4 Collier on Bankruptcy* as follows:

> As previously stated, under section 541(a) the estate is normally comprised only of property interests belonging to the debtor at the time the petition is filed. In general, property not then owned but subsequently acquired by the debtor does not become property of the estate, but becomes the debtor's, clear of all claims that are discharged by the bankruptcy proceedings.[18]

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15 11 U.S.C. § 541(a)(6).

16 11 U.S.C. § 541(a)(1) (emphasis added).

17 11 U.S.C. § 541(a)(6).

18 L. King, 4 *Collier on Bankruptcy* ¶ 541.05 at 541-25 (citations omitted).

Paolo Gucci earned a living by creating and licensing designs for consumer products. His designs were the core of his business. Those designs, intellectual property created by Paolo Gucci *after* filing a bankruptcy petition are clearly his property, free and clear of the bankrupt estate. If this were not so, then a designer such as Paolo Gucci could never again earn a living.

This self-evident rule was applied in this manner in *Patrick A. Casey, P.A. v. Hochman,*[19] where the Tenth Circuit held that a patent obtained by a debtor after filing a Chapter 11 petition was not property of the bankruptcy estate and that the debtor was entitled to it and to any revenues he could derive from it.[20] This proposition has always been the law. In fact, in the *Casey* case, the Tenth Circuit points to the holding of the United States Supreme Court that dates from 1913, and is still good law:

> We think that the purpose of the law was to fix the line of cleavage with reference to the condition of the bankrupt estate as of the time at which the petition was filed and that the property which vests in the trustee at the time of adjudication is that which the bankrupt owned at the time of the filing of the petition.[21]

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19 963 F.2d 1347 (10th Cir. 1992).

20 *Id.* at 1351.

21 *Everet v. Judson,* 228 U.S. 474, 479, 33 S.Ct. 568, 569, 57 L.Ed. 927 (1913).

There is no basis whatsoever for considering the petition designs which Paolo Gucci created, designed, selected or supervised after the commencement of the bankruptcy proceeding to be anything other than his personal property free of the bankruptcy estate.

APPENDIX D

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

Substantively Consolidated
Chapter 11 Case No.
94 B 40614 (JHG)

In re PAOLO GUCCI, et al,
Debtors.

October 15, 1996

EXCERPT FROM MEMORANDUM OF PAOLO GUCCI DESIGN STUDIO, LTD. AND LICENSING BY PAOLO, INC. OF POINTS AND AUTHORITIES IN SUPPORT OF THEIR EMERGENCY MOTION FOR STAY PENDING APPEAL

Paolo Gucci Design Studios, Ltd. ("PGDS") and Licensing By Paolo, Inc. ("LBP") have moved this Court pursuant to Fed. R. Civ. P. 62 for a stay of an order entered by the Bankruptcy Court on October 15, 1996 pending their appeal of that order.[1] The Bankruptcy Court Order directs

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[1] A copy of the October 15, 1996 Order of the Bankruptcy Court (Bankruptcy Court Order) is attached to this Memorandum as Exhibit A.

both companies to deliver their property to the Trustee for delivery to a competitor Guccio Gucci, S.p.A. and Gucci America, Inc. (collectively referred to as "Gucci"). The Bankruptcy Court Order also compels PGDS and LBP to terminate completely all of their business activities.

As we demonstrate below, the Order which the Bankruptcy Judge entered is plainly erroneous. This proceeding involves a Chapter 11 bankruptcy petition which Paolo Gucci filed on February 8, 1994. From approximately 1987 until his death on October 1, 1995, Paolo Gucci was a competitor of the Gucci group. The property which PGDS possesses and which the Bankruptcy Order directs it to deliver to Gucci are designs executed by Paolo Gucci *subsequent* to the date on which he filed a bankruptcy petition. The Bankruptcy Court has no jurisdiction over this property and its order approving the sale of this property to Gucci and directing PGDS to transfer it to Gucci is *ultra vires*. With respect to the pre-petition designs of Paolo Gucci which Paolo Gucci licensed to LBP the Bankruptcy Code[2] specifically provides that license of intellectual property cannot be rejected in a bankruptcy proceeding without the agreement of the licensee. Despite LBP's vigorous objection to the Trustee's rejection of these license agreements, the Bankruptcy judge nevertheless approved the Trustee's rejection of them. The Bankruptcy Order is plainly erroneous and will, in all likelihood, be reversed on appeal.

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[2] 11 U.S.C. § 365(n).

APPENDIX E

UNITED STATES COURT OF APPEAL FOR THE SECOND CIRCUIT

Substantively Consolidated
Chapter 11 Case No.
94 B 40614 (JHG)

In re PAOLO GUCCI, et al.,
Debtors.

LICENSING BY PAOLO, INC. AND PAOLO GUCCI DESIGN STUDIO, LTD.,
Appellants

-against-

FRANK G. SINATRA, AS TRUSTEE OF THE SUBSTANTIVELY CONSOLIDATED ESTATES OF PAOLO GUCCI, *ET AL.*, GUCCIO GUCCI, S.P.A. AND GUCCI AMERICA, INC.,
Appellees

November 22, 1996

EXCERPT FROM MEMORANDUM OF PAOLO GUCCI DESIGN STUDIO, LTD. AND LICENSING BY PAOLO, INC. OF POINTS AND AUTHORITIES IN SUPPORT OF THEIR EMERGENCY MOTION FOR STAY PENDING APPEAL

Paolo Gucci Design Studios, Ltd. ("PGDS") and Licensing By Paolo, Inc. ("LBP") have moved this Court pursuant to Fed. R. App. P. 8 for a stay of an Order entered by Judge Thomas P. Griesa of the District Court for the Southern District of New York pending an appeal of that Decision to this Court. The District Court affirmed an Order entered by the Bankruptcy Court on October 15, 1996.[1] The Bankruptcy Court Order directs both PGDS and LBP to deliver their property to the Trustee for delivery to a competitor Guccio Gucci, S.p.A. and Gucci America, Inc. (collectively referred to as "Gucci"). The Bankruptcy Court Order also compels PGDS and LBP to terminate completely all of their business activities.

As we demonstrate below, the Order which the Bankruptcy Judge entered is plainly erroneous. This proceeding involves a Chapter 11 bankruptcy petition which Paolo Gucci filed on February 8, 1994. From approximately 1987 until his death on October 12, 1995, Paolo Gucci was a competitor of the Gucci group. The property which PGDS possesses and which the Bankruptcy Order directs it to deliver to Gucci are designs executed by Paolo Gucci *subsequent* to the date on which he filed a bankruptcy petition. The Bankruptcy Court has no jurisdiction over this property and its order approving the sale of this property to

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[1] A copy of the October 15, 1996 Order of the Bankruptcy Court (Bankruptcy Court Order) is attached to this Memorandum as Exhibit A.

Gucci and directing PGDS to transfer it to Gucci is *ultra vires*. With respect to the pre-petition designs of Paolo Gucci which Paolo Gucci licensed to LBP the Bankruptcy Code[2] specifically provides that license of intellectual property cannot be rejected in a bankruptcy proceeding without the agreement of the licensee. Despite LBP's vigorous objection to the Trustee's rejection of these license agreements, the Bankruptcy judge nevertheless approved the Trustee's rejection of them. The Bankruptcy Order is plainly erroneous and will, in all likelihood, be reversed on appeal.

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[2] 11 U.S.C. § 365(n).